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NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP

Form 10-Q

May 10, 2007

SECURITIES AND EXCHANGE COMMISSION

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from **to**

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**

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

Depository Receipts

(Title of each Class)

American Stock Exchange

(Name of each Exchange on which Registered)

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

Class A

Limited Partnership Units

(Title of class)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Documents Incorporated By Reference

None

As of March 31, 2007, 1,323,766 depository receipts and 6,002 units of the registrant are outstanding.

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NEW ENGLAND REALTY ASSOCIATES, L.P.

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

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

The 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, 2006.

The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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| | March 31, 2007 (Unaudited) | December 31, 2006 (Audited) |
|---|----------------------------------|-----------------------------------|
| ASSETS | | |
| Rental Properties | \$ 97,174,424 | \$ 98,283,838 |
| Cash and Cash Equivalents | 10,225,132 | 9,773,250 |
| Rents Receivable | 621,981 | 580,638 |
| Insurance Recovery Receivable | 100,000 | |
| Real Estate Tax Escrows | 853,254 | 826,301 |
| Prepaid Expenses and Other Assets | 2,285,428 | 2,341,653 |
| Investment in Joint Ventures | 17,572,953 | 18,193,178 |
| Financing and Leasing Fees | 457,400 | 484,452 |
| Total Assets | \$ 129,290,572 | \$ 130,483,310 |
| LIABILITIES AND PARTNERS CAPITAL | | |
| Mortgage Notes Payable | \$ 114,390,113 | \$ 114,659,052 |
| Accounts Payable and Accrued Expenses | 1,650,333 | 1,289,643 |
| Advance Rental Payments and Security Deposits | 2,878,482 | 2,892,612 |
| Total Liabilities | 118,918,928 | 118,841,307 |
| Commitments and Contingent Liabilities (Note 9) | | |
| Partners Capital | | |
| 173,252 units outstanding in 2007 and 2006 | 10,371,644 | 11,642,003 |
| Total Liabilities and Partners Capital | \$ 129,290,572 | \$ 130,483,310 |

See notes to consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF INCOME

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| | Three Months Ended | |
|---|---------------------------|-------------------|
| | March 31, | |
| | (Unaudited) | |
| | 2007 | 2006 |
| Revenues | | |
| Rental income | \$ 8,034,588 | \$ 7,967,592 |
| Laundry and sundry income | 107,845 | 124,031 |
| | 8,142,433 | 8,091,623 |
| Expenses | | |
| Administrative | 396,261 | 351,652 |
| Depreciation and amortization | 1,711,456 | 1,649,043 |
| Interest | 1,904,266 | 1,916,124 |
| Management fees | 324,052 | 321,660 |
| Operating | 1,418,294 | 1,291,634 |
| Renting | 71,507 | 55,866 |
| Repairs and maintenance | 1,080,745 | 1,030,728 |
| Taxes and insurance | 915,308 | 871,329 |
| | 7,821,889 | 7,488,036 |
| Income Before Other Income and Discontinued Operations | 320,544 | 603,587 |
| Other Income (Loss) | | |
| Interest income | 100,126 | 93,478 |
| Casualty (Loss) | (60,000) | |
| (Loss) from investment in joint ventures | (420,225) | (245,180) |
| | (380,099) | (151,702) |
| Income (Loss) From Continuing Operations | (59,555) | 451,885 |
| Discontinued Operations | | |
| Loss from discontinued operations | | (10,125) |
| | | (10,125) |
| Net (Loss) Income | \$ (59,555) | \$ 441,760 |
| Income per Unit | | |
| Income (Loss) before discontinued operations | \$ (0.34) | \$ 2.61 |
| Income from discontinued operations | | (.06) |
| Net Income per Unit | \$ (0.34) | \$ 2.55 |
| Weighted Average Number of Units Outstanding | 173,252 | 173,252 |

See notes to consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

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| | Units | | | Subtotal | Treasury Units | Total | Partners Capital | | | Total |
|--------------------------|--------------------|---------|------------------------|----------|-------------------|---------|--------------------|--------------|------------------------|---------------|
| | Limited Class A | Class B | General Partnership | | | | Limited Class A | Class B | General Partnership | |
| Balance, January 1, 2006 | 144,180 | 34,243 | 1,802 | 180,225 | 6,973 | 173,252 | \$ 12,062,684 | \$ 2,868,340 | \$ 150,995 | \$ 15,082,019 |
| Distribution to Partners | — | — | — | — | — | — | (968,643) | (230,053) | (12,108) | (1,210,804) |
| Net Income | — | — | — | — | — | — | 353,408 | 83,934 | 4,418 | 441,760 |
| Balance, March 31, 2006 | 144,180 | 34,243 | 1,802 | 180,225 | 6,973 | 173,252 | \$ 11,447,449 | \$ 2,722,221 | \$ 143,305 | \$ 14,312,975 |
| Balance, January 1, 2007 | 144,180 | 34,243 | 1,802 | 180,225 | 6,973 | 173,252 | \$ 9,310,672 | \$ 2,214,737 | \$ 116,594 | \$ 11,642,003 |
| Distribution to Partners | — | — | — | — | — | — | (968,643) | (230,053) | (12,108) | (1,210,804) |
| Net Income | — | — | — | — | — | — | (47,644) | (11,315) | (596) | (59,555) |
| Balance, March 31, 2007 | 144,180 | 34,243 | 1,802 | 180,225 | 6,973 | 173,252 | \$ 8,294,385 | \$ 1,973,369 | \$ 103,890 | \$ 10,371,644 |

See notes to consolidated financial statements.

NEW ENGLAND REALTY ASSOCIATES LIMITED PARTNERSHIP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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| | Three Months Ended | |
|---|---------------------------|---------------|
| | March 31, | |
| | (Unaudited) | |
| | 2007 | 2006 |
| Cash Flows from Operating Activities | | |
| Net income | \$ (59,555) | \$ 441,760 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 1,711,456 | 1,649,042 |
| Loss from investment in joint ventures | 420,225 | 245,180 |
| Changes in operating assets and liabilities | | |
| (Increase) in rents receivable | (41,343) | (60,138) |
| (Increase) in insurance recovery receivable | (100,000) | |
| (Increase) in financing and leasing fees | (8,201) | |
| Increase (Decrease) in accounts payable and accrued expense | 360,690 | (102,884) |
| (Increase) in real estate tax escrow | (26,953) | (34,850) |
| (Increase) Decrease in prepaid expenses and other assets | 56,225 | (27,134) |
| (Decrease) in advance rental payments and security deposits | (14,130) | (32,187) |
| Total Adjustments | 2,357,969 | 1,637,029 |
| Net cash provided by operating activities | 2,298,414 | 2,078,789 |
| Cash Flows Used in Investing Activities | | |
| (Investment in) joint ventures | | (300,000) |
| Proceeds from joint ventures | 200,000 | |
| Purchase and improvement of rental properties | (566,789) | (418,946) |
| Net cash (used in) investing activities | (366,789) | (718,946) |
| Cash Flows Used in Financing Activities | | |
| Principal payments of mortgage notes payable | (268,939) | (195,870) |
| Distributions to partners | (1,210,804) | (1,210,804) |
| Net cash (used in) financing activities | (1,479,743) | (1,406,674) |
| Net Increase (Decrease in) Cash and Cash Equivalents | 451,882 | (46,831) |
| Cash and Cash Equivalents, at beginning of period | 9,773,250 | 12,049,392 |
| Cash and Cash Equivalents, at end of period | \$ 10,225,132 | \$ 12,002,561 |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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Line of Business: New England Realty Associates Limited Partnership (NERA or the Partnership) was organized in Massachusetts in 1977. NERA and its subsidiaries own and operate various residential apartment buildings, condominium units and commercial properties located in Massachusetts and New Hampshire. NERA has also made investments in other real estate partnerships and has participated in other real estate-related activities, primarily located in Massachusetts. In connection with the mortgages referred to in Note 5, a substantial number of NERA's properties are owned by separate subsidiaries without any change in the historical cost basis.

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

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

Revenue Recognition: Rental income from residential and commercial properties is recognized over the term of the related lease. Amounts 60 days in arrears are charged against income. Certain leases of the commercial properties provide for increasing stepped minimum rents, which are accounted for on a straight-line basis over the term of the lease.

Rental Properties: Rental properties are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; improvements and additions are capitalized. When assets are retired or otherwise disposed of, the cost of the asset and related accumulated depreciation is eliminated from the accounts, and any gain or loss on such disposition is included in income. Fully depreciated assets are removed from the accounts. Rental properties are depreciated by both straight-line and accelerated methods over their estimated useful lives.

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

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

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

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

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

Comprehensive Income: Comprehensive income is defined as changes in partners' equity, exclusive of transactions with owners (such as capital contributions and dividends). NERA did not have any comprehensive income items in 2007 or 2006 other than net income as reported.

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

Concentration of Credit Risks and Financial Instruments: The Partnership's properties are located in New England, and the Partnership is subject to the general economic risks related thereto. No single tenant accounted for more than 5% of the Partnership's revenues in 2007 or 2006. The Partnership makes its temporary cash investments with high-credit-quality financial institutions. At March 31, 2007, substantially all of the Partnership's cash and cash equivalents were held in interest-bearing accounts at financial institutions, earning interest at rates from 2.33% to 5.15%. At March 31, 2007 and December 31, 2006, respectively, approximately \$11,000,000 and \$10,000,000 of cash and cash equivalents, and cash included in prepaid expenses and other assets exceeded federally insured amounts.

Advertising Expense: Advertising is expensed as incurred. Advertising expense was \$36,101 and \$16,293 for the three months ended March 31, 2007, and 2006 respectively.

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

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

Interest Capitalized: The Company follows the policy of capitalizing interest as a component of the cost of rental property when the time of construction exceeds one year. During the three months ended March 31, 2007 and the year ended December 31, 2006, there was no capitalized interest.

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

NOTE 2. RENTAL PROPERTIES

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As of March 31, 2007, the Partnership and its Subsidiary Partnerships owned 2,377 residential apartment units in 22 residential and mixed-use complexes (collectively, the Apartment Complexes). The Partnership also owns 24 condominium units in two residential condominium complexes, all of which are leased to residential tenants (collectively referred to as the Condominium Units). The Apartment Complexes and Condominium Units are located primarily in the metropolitan Boston area of Massachusetts.

Additionally, as of March 31, 2007, the Subsidiary Partnerships owned a commercial shopping center in Framingham, Massachusetts and mixed-use properties in Boston, Brockton and Newton, Massachusetts. These properties are referred to collectively as the Commercial Properties.

Additionally, as of March 31, 2007, the Partnership owned a 50% ownership interest in eight residential and mixed use complexes (the Investment Properties) with a total of 490 units, accounted for using the equity method of consolidation. See Note 14 for summary information on these investments.

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See Note 3 for a description of the sale of Middlesex Apartments to the majority shareholder of the General Partner in 2005.

Rental properties consist of the following:

| | March 31, 2007 | December 31, 2006 | Useful Life |
|-------------------------------------|----------------|-------------------|-------------|
| Land, improvements and parking lots | \$ 23,225,753 | \$ 23,217,629 | 10-31 years |
| Buildings and improvements | 105,830,692 | 105,759,848 | 15-31 years |
| Kitchen cabinets | 4,142,551 | 3,994,136 | 5-10 years |
| Carpets | 3,578,369 | 3,447,775 | 5-10 years |
| Air conditioning | 838,711 | 838,324 | 7-10 years |
| Laundry equipment | 196,024 | 192,938 | 5-7 years |
| Elevators | 797,960 | 748,769 | 20 years |
| Swimming pools | 147,082 | 147,082 | 10 years |
| Equipment | 1,753,397 | 1,629,583 | 5-7 years |
| Motor vehicles | 113,150 | 113,150 | 5 years |
| Fences | 250,352 | 250,352 | 5-10 years |
| Furniture and fixtures | 4,363,911 | 4,331,597 | 5-7 years |
| Smoke alarms | 131,364 | 130,744 | 5-7 years |
| | 145,369,316 | 144,801,927 | |
| Less accumulated depreciation | 48,194,892 | 46,518,089 | |
| | \$ 97,174,424 | \$ 98,283,838 | |

NOTE 3. RELATED PERSON TRANSACTIONS

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The Partnership's properties are managed by an entity that is owned by the majority shareholder of the General Partner. The management fee is equal to 4% of rental revenue and laundry income. Total fees paid were approximately \$324,000 and \$322,000 in 2007 and 2006, respectively.

The Partnership Agreement permits the General Partner or management company to charge the costs of professional services (such as counsel, accountants and contractors) to NERA. In 2007 and 2006, approximately \$192,000 and \$103,000, respectively, was charged to NERA for legal, accounting, construction, maintenance, rental and architectural services and supervision of capital improvements. Of the 2007 expenses referred to above, approximately \$70,000 consisted of repairs and maintenance and \$75,000 of administrative expense. Approximately \$47,000 of expenses for construction, architectural services and supervision of capital projects was capitalized in rental properties.

Additionally in 2007, the Hamilton Company received approximately \$124,000 from the Investment Properties of which approximately \$66,000 was the management fee, \$500 was for construction supervision and architectural fees, \$49,000 was for maintenance services and \$6,000 was for administrative services. The Hamilton Company legal department acts as closing attorney on certain condo sales receiving approximately \$9,000 during the three months ended March 31, 2007. As more fully described in Note 14, an entity partially owned by the majority shareholder of the General Partner is the sales agent for certain condominium sales receiving approximately \$29,000 of commissions in 2007.

On January 1, 2004, all employees were transferred to the management company's payroll. The Partnership reimburses the management company for the payroll and related expenses of the employees directly employed by the properties. Total reimbursement was approximately \$497,000 for the three months ended March 31, 2007 and \$2,259,000 for the year ended December 31, 2006. The Management Company maintains a 401K plan for all eligible employees whereby the employees may contribute the maximum allowed by law. The plan also provides for discretionary contributions by the employer. There were no employer contributions in 2007 and 2006.

In 1996, prior to becoming an employee and President of the Management Company, the current President of the Management Company performed asset management consulting services to the Partnership. This individual continues to perform this service and receives an asset management fee from the Partnership, receiving \$12,500 during the three months ended March 31, 2007 and \$50,000 during the year ended December 31, 2006.

The Partnership has invested in joint ventures to purchase six residential apartment complexes (the Investment Properties). The Partnership owns 50% of each entity, the majority shareholder of the General Partner owns between 43.2% and 47.5% and the President of Hamilton owns between 2.5% and 4.5%, and five other management employees of Hamilton own collectively between 0% and 2.3% respectively. See Note 14 for a description of the properties and their operations.

On June 30, 2003, the Partnership purchased five condominium units in a 42-unit building located in Brookline, Massachusetts. These were purchased from Harvard 45 Associates LLC (Harvard 45) which is owned 70% by the 75% shareholder and treasurer of the General Partner, and 5% by the President of Hamilton. The total purchase price for these condominiums was approximately \$2,416,000 and was approved both by the Partnership's Advisory Committee and the General Partner. Harvard 45 realized a gain of approximately \$648,000 from these sales. Harvard 45 also sold 16 units to unrelated parties; the prices for all 21 units sold were comparable. The majority shareholder of the general partner has guaranteed the \$1,600,000 mortgage for these five units. The original mortgage of \$1,600,000 has been extended to August 2009. The mortgage rate of 6.5% is fixed for three years and the cost associated with this extension is approximately \$8,000.

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

In March 2005, the Partnership sold the Middlesex Apartments to an entity wholly owned by the majority shareholder of the General Partner. The selling price was \$6,500,000 which resulted in a capital gain for the Partnership of approximately \$5,800,000 and an increase in the Partnership's cash reserves of approximately \$4,800,000 after payment off the existing \$1,300,000 mortgage, prepayment penalties and other selling expenses. The buyer is selling the property as condominium units. An entity 31% owned by the majority shareholder of the General Partner and 5% owned by the President of the management company is the sales agent and will receive a variable commission of 3% to 5% on each sale. Total commissions paid to date are approximately \$138,000. Although the buyer is assuming the costs and economic risks of converting and selling the condominium units, if the net gains from the sale of these units exceed \$500,000, the excess will be split equally between the buyer and the Partnership. The buyer estimated that the gain from the sale of these units would exceed \$500,000. There is one remaining unit unsold at March 31, 2007.

NOTE 4. OTHER ASSETS

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Included in prepaid expenses and other assets at March 31, 2007 and December 31, 2006 is approximately \$282,000 and \$250,000, respectively, held in escrow to fund future capital improvements.

Financing and leasing fees of \$457,400 and \$484,452 are net of accumulated amortization of \$540,880 and \$517,728 at March 31, 2007 and December 31, 2006, respectively.

NOTE 5. MORTGAGE NOTES PAYABLE

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At March 31, 2007 and December 31, 2006, the mortgages payable consisted of various loans, all of which were secured by first mortgages on properties referred to in Note 2. At March 31, 2007, the fixed interest rates on these loans ranged from 4.84% to 8.46%, payable in monthly installments aggregating approximately \$704,000, including interest, to various dates through 2016. The majority of the mortgages are subject to prepayment penalties. At March 31, 2007, the weighted average interest rate on the above mortgages was 6.63%. The effective rate of 6.71% includes the amortization expense of deferred financing costs. See Note 12 for fair value information.

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

Approximate annual maturities at March 31, 2007 are as follows:

| | |
|--------------------------|----------------|
| 2008- current maturities | \$ 1,093,000 |
| 2009 | 5,712,000 |
| 2010 | 13,097,000 |
| 2011 | 33,416,000 |
| 2012 | 1,179,000 |
| Thereafter | 59,893,000 |
| | \$ 114,390,000 |

NOTE 6. ADVANCE RENTAL PAYMENTS AND SECURITY DEPOSITS

The Partnership's residential lease agreements may require tenants to maintain a one-month advance rental payment and/or a security deposit. At March 31, 2007, amounts received for prepaid rents of approximately \$1,441,000 are included in cash and cash equivalents, and security deposits of approximately \$1,191,000 are included with other assets.

NOTE 7. PARTNERS' CAPITAL

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

In February 2007, the Partnership approved a quarterly distribution of \$7.00 per unit (\$0.70 per receipt) payable on March 31, 2007.

In 2006, the Partnership paid quarterly distributions of \$7.00 per unit (\$.70 per receipt) in March, June, September, and December 2006 for a total distribution of \$28.00 per unit (\$2.80 per receipt).

The Partnership has entered into a deposit agreement with an agent to facilitate public trading of limited partners' interests in Class A Units. Under the terms of this agreement, the holders of Class A Units have the right to exchange each Class A Unit for 10 Depositary Receipts. The following is information per Depositary Receipt:

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2007 | 2006 |
| Income (Loss) per Depositary Receipt before Discontinued Operations | \$ (0.03) | \$ 0.26 |
| Income from Discontinued Operations | | (0.01) |
| Net Income per Depositary Receipt after Discontinued Operations | \$ (0.03) | \$ 0.25 |
| Distributions per Depositary Receipt | \$ 0.70 | \$ 0.70 |

NOTE 8. TREASURY UNITS

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Treasury Units at March 31, 2007 are as follows:

| | |
|---------------------|-------|
| Class A | 5,681 |
| Class B | 1,228 |
| General Partnership | 64 |
| | 6,973 |

NOTE 9. COMMITMENTS AND CONTINGENCIES

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

On January 18, 2007, a pipe burst at 62 Boylston Street resulting in approximately 40 apartments being evacuated and will remain unoccupied for an extended period. The partnership has insurance coverage for both repairs and rental loss until such time as the apartments are available for rent. The potential uninsured rental loss and other miscellaneous uninsured expenses cannot be estimated and may significantly reduce the income of the property. An estimated recovery of \$100,000 has been recorded at March 31, 2007 including approximately \$65,000 in rental income. The remaining loss of approximately \$60,000 at March 31, 2007 is inclusive of the estimated deductible and other non reimbursable expenses.

NOTE 10. RENTAL INCOME

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During the three months ended March 31, 2007, approximately 93% of rental income was related to residential apartments and condominium units with leases of one year or less. The remaining 7% was related to commercial properties, which have minimum future annual rental income on non-cancellable operating leases at March 31, 2007 as follows:

| | Commercial Property Leases |
|------------|---------------------------------------|
| 2008 | \$ 1,809,000 |
| 2009 | 1,732,000 |
| 2010 | 1,455,000 |
| 2011 | 1,236,000 |
| 2012 | 1,104,000 |
| Thereafter | 3,621,000 |
| | \$ 10,957,000 |

The aggregate minimum future rental income does not include contingent rentals that may be received under various leases in connection with percentage rents, common area charges and real estate taxes. Aggregate contingent rentals from continuing operations were approximately \$112,000 and \$389,000 for the three months ended March 31, 2007 and for the year ended December 31, 2006.

Rents receivable are net of allowances for doubtful accounts of approximately \$570,000 and \$494,000 at March 31, 2007 and December 31, 2006, respectively. Included in rents receivable is approximately \$409,583 resulting from recognizing rental income from non-cancelable commercial leases with future rental increases on a straight-line basis. The majority of this amount is for long-term leases with Staples and Trader Joe's at Staples Plaza in Framingham, Massachusetts.

NOTE 11. CASH FLOW INFORMATION

During the three months ended March 31 2007 and 2006, cash paid for interest was \$1,904,266 and \$1,916,124.

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NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- For cash and cash equivalents, 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.

| | Carrying Amount | Estimated Fair Value |
|------------------------|-----------------|----------------------|
| Mortgage Notes Payable | | |
| At March 31, 2007 | \$ 114,390,113 | \$ 117,025,632 |
| At December 31, 2006 | \$ 114,659,052 | \$ 117,251,025 |

Disclosure about fair value of financial instruments is based on pertinent information available to management as of March 31, 2007 and December 31, 2006. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2006 and current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 13. TAXABLE INCOME AND TAX BASIS

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Taxable income reportable by the Partnership and includable in its partner's tax returns is different than financial statement income because of accelerated depreciation, different tax lives, and timing differences related to prepaid rents and allowances. Taxable income is approximately \$200,000 greater than statement income for the three months ended March 31, 2007 and approximately \$700,000 greater than statement income for the year ended December 31, 2006. The cumulative tax basis of the Partnership's real estate at December 31, 2006 is approximately \$1,100,000 greater than the statement basis. The Partnership's tax basis in its joint venture investments at December 31, 2006 is approximately \$400,000 less than statement basis. The depreciation rules that generated substantial tax deductions in 2004 and 2003 expired in 2004, accordingly taxable income in future years may exceed statement income.

NOTE 14. INVESTMENT IN PARTNERSHIPS

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Since November 2001, the Partnership has invested in eight limited partnerships, each of which has invested primarily in residential apartment complexes. The Partnership has a 50% ownership interest in each investment. The other investors are Harold Brown, the President of the Management Company and five other employees of the Management Company. Harold Brown's ownership interest is between 43.2% and 47.5%, with the balance of 6.8% and 2.5% owned by others. A description of each investment is as follows:

On March 7, 2005, the Partnership invested \$2,000,000 for a 50% ownership interest in a building comprising 49 apartments, one commercial space and a 50-car surface parking lot located in Boston, Massachusetts. The purchase price was \$14,300,000, and a \$10,750,000 30-month mortgage with a floating interest rate (7.35%) of 2% over the 30 day Libor Index (5.35% at December 31, 2006) was obtained to finance this acquisition. The Partnership plans to operate the building and initiate development of the parking lot. The plan may also include disposition of selected units, as condominiums in order to reduce the above mentioned mortgage. Any profits from the condominium sales will be taxed at ordinary rates. Mr. Brown has guaranteed 25% of this mortgage until such time as \$2,687,500 of principal has been paid. The Partnership and the other investor have, in turn agreed to indemnify Mr. Brown for their proportional share of any losses incurred by this guarantee. This investment is referred to as Essex Street. The \$10,750,000 matures in 2007 and management is currently seeking long-term financing.

On March 2, 2005, the Partnership invested \$2,352,000 for a 50% ownership interest in a 176-unit apartment complex with an additional small commercial building located in Quincy, Massachusetts. The purchase price was \$23,750,000. The Partnership plans to sell the majority of units as condominiums and retain 49 units for long-term investment. The Partnership obtained a new 10-year mortgage in the amount of \$5,000,000 on the units to be retained by the Partnership. The interest on the new loan is 5.67% fixed for the 10 year term with interest only payments for five years and amortized over a 30 year period for the balance of the loan term. The closing costs associated with the new mortgage were approximately \$50,000, which will be amortized over the 10-year term. As of March 31, 2007, 112 units have been sold, and five units have a signed purchase and sales agreement. Gains from the sales of units (approximately \$54,000 per unit) will be taxed at ordinary income rates. This investment is referred to as Hamilton 1025, LLC.

On October 3, 2005, the Partnership invested \$2,500,000 for a 50% ownership interest in a 168-unit apartment complex in Quincy, Massachusetts. The purchase price was \$30,875,000. The Partnership plans to sell the majority of units as condominium and retain 48 units for long-term investment. The proceeds from the condominium sales are primarily to be used to reduce the above-mentioned mortgage. Gains from the sales of units will be taxed at ordinary income rates (approximately \$47,000 per unit). As of March 31, 2007, 55 units have been sold and an additional nine units have a signed purchase and sales agreement. In February 2007, the Partnership refinanced the 48 units which will be retained with a new mortgage in the amount of \$4,750,000 with an interest rate of 5.57%, interest only for five years and amortized over 30 years thereafter. The loan will be amortized over 30 years and matures in March 2017. The balance on the original loan on the 65 units held for sale is approximately \$9,575,000. This investment is referred to as Hamilton Bay, LLC.

In September 2004, the Partnership invested approximately \$5,075,000 for a 50% ownership interest in a 42-unit apartment complex located in Lexington, Massachusetts. The purchase price was \$10,100,000. In October 2004, the Partnership obtained a mortgage on the property in the amount of \$8,025,000 and returned \$3,775,000 to the Partnership. In January 2007, the Partnership obtained a new 10-year mortgage in the amount of \$5,500,000. The interest on the new loan is 5.67% fixed for the 10 year term with interest only payments for five years and amortized over a 30 year period for the balance of the loan. This new loan required a cash contribution by the Partnership of \$1,250,000 in 2006. The closing costs associated with the new mortgage were approximately \$37,000, which will be amortized over the 10-year term. The unamortized deferred financing costs of approximately \$30,000 were written off in the first quarter of 2007. This investment is referred to as Hamilton Minuteman, LLC.

In August 2004, the Partnership invested \$8,000,000 for a 50% ownership interest in a 280-unit apartment complex located in Watertown, Massachusetts. The total purchase price was \$56,000,000. The Partnership plans to sell, over time, three buildings with a total of 137 units as condominiums commencing in January 2005. As of March 31, 2007, 101 units have been sold and an additional five units were under contract. Gains from these sales will be taxed as ordinary income (approximately \$62,000 per unit). The majority of the sales proceeds will be used to reduce the mortgage. An entity partially owned by the majority shareholder of the General Partner and the President of the management company, 31% and 5% respectively, is the sales agent and will receive a variable commission on each sale of 3% to 5%. This investment is referred to as Hamilton On Main, LLC.

In 2005, Hamilton on Main, LLC obtained a new 10 year mortgage on the three buildings to be retained. The new mortgage is \$16,825,000, with interest only of 5.18% for three years and amortizing on a 30 year schedule for the remaining seven years when the balance is due. At March 31, 2007, the outstanding balance of the mortgage on the units held for sale was approximately \$1,600,000.

In November 2001, the Partnership formed a limited liability company to purchase a 40-unit apartment building in Cambridge, Massachusetts. This property has a 12-year mortgage, which is amortized on a 30-year schedule, with a final payment of approximately \$6,000,000 in 2014. The Partnership is a 50% owner in this investment and is referred to as 345 Franklin, LLC.

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

payments to the lender as a result of this guaranty, the Partnership and other investors have, in turn, agreed to indemnify him for their proportionate share of any such payments

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

| | Essex 81 | 345 Franklin | Hamilton 1025 | HamiltonBay Sales | HamiltonBay Apts | Minuteman | Hamilton on Main | Hamilton Pl Sales | Total |
|---|-------------------|------------------|------------------|-------------------|------------------|------------------|-------------------|-------------------|--------------------|
| ASSETS | | | | | | | | | |
| Rental Properties | 13,816,621 | 9,445,423 | 8,786,263 | 11,203,955 | 9,279,485 | 9,096,999 | 26,515,913 | 7,859,218 | 96,003,877 |
| Cash & Cash Equivalents | 9,072 | 33,689 | 77,027 | 2,196 | 5,494 | 3,618 | 1,830 | 56,178 | 189,104 |
| Rent Receivable | 56,713 | 2,215 | 3,840 | (1,689) | 4,712 | 1,397 | 1,637 | 2,971 | 71,796 |
| Real Estate Tax Escrow | | 46,617 | 24,006 | | 31,116 | 18,064 | 375,092 | | 494,895 |
| Due From Investment Properties | 175,000 | | 300,000 | 4,699,931 | | | | 25,000 | 5,199,931 |
| Prepaid Expenses & Other Assets | 71,732 | 109,509 | 95,296 | 147,946 | 85,373 | 63,987 | 334,981 | 3,417 | 912,241 |
| Financing & Leasing Fees | 63,891 | 55,118 | 48,547 | 46,240 | 62,623 | 42,709 | 58,468 | 18,197 | 395,793 |
| Total Assets | 14,193,029 | 9,692,571 | 9,334,979 | 16,098,579 | 9,468,803 | 9,226,774 | 27,287,921 | 7,964,981 | 103,267,637 |
| LIABILITIES AND PARTNERS CAPITAL | | | | | | | | | |
| Mortgage Notes Payable | 10,750,000 | 7,680,371 | 5,000,000 | 9,575,646 | 4,750,000 | 5,500,000 | 16,825,000 | 1,580,087 | 61,661,104 |
| Due to Investment Properties | | | | 300,000 | 4,699,931 | 175,000 | 25,000 | | 5,199,931 |
| Accounts Payable & Accrued Exp | 111,202 | 63,063 | 11,616 | 123,106 | 4,306 | 39,706 | 132,806 | 70,449 | 556,254 |
| Advance Rental Pymts & Security Dep | 135,744 | 136,229 | 65,704 | 87,028 | 77,410 | 38,197 | 148,770 | 15,358 | 704,440 |
| Total Liabilities | 10,996,946 | 7,879,663 | 5,077,320 | 10,085,780 | 9,531,647 | 5,752,903 | 17,131,576 | 1,665,894 | 68,121,729 |
| Partners Capital** | 3,196,083 | 1,812,908 | 4,257,659 | 6,012,799 | (62,844) | 3,473,871 | 10,156,345 | 6,299,087 | 35,145,907 |
| Total Liabilities and Capital | 14,193,029 | 9,692,571 | 9,334,979 | 16,098,579 | 9,468,803 | 9,226,774 | 27,287,921 | 7,964,981 | 103,267,637 |
| Partners Capital - NERA 50% | 1,598,042 | 906,454 | 2,128,830 | 3,006,400 | (31,422) | 1,736,936 | 5,078,173 | 3,149,544 | 17,572,953 |

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

| Period End | Essex 81 March 2005 | Franklin Street November 2001 | 1025 Hamilton March 2005 | Hamilton Bay Sales October 2005 | Hamilton Bay Apts. October 2005 | Hamilton Minuteman August 2004 | Hamilton on Main August 2004 | Hamilton Place Sale August 2004 | Total |
|----------------|---------------------------|--|--------------------------------|--|--|---|---------------------------------------|--|------------|
| March 31, 2008 | 10,750,000 | 121,844 | | | | | 19,552 | 1,580,087 | 12,471,483 |
| March 31, 2009 | | 130,522 | | 9,575,646 | | | 241,315 | | 9,947,483 |

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| | | | | | | | | |
|----------------|------------|-----------|-----------|-----------|-----------|------------|------------|------------|
| March 31, 2010 | 139,818 | | | | 254,117 | | | 393,934 |
| March 31, 2011 | 149,776 | | | | 267,597 | | | 417,373 |
| March 31, 2012 | 160,444 | | | | 281,792 | | | 442,236 |
| Thereafter | 6,977,967 | 5,000,000 | | 4,750,000 | 5,500,000 | 15,760,627 | | 37,988,594 |
| | 10,750,000 | 7,680,371 | 5,000,000 | 9,575,646 | 4,750,000 | 5,500,000 | 16,825,000 | 1,580,087 |
| | | | | | | | | 61,661,104 |

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| | Essex 81 | 345 Franklin | Hamilton 1025 | HamiltonBay Sales | HamiltonBay Apts | Minuteman | Hamilton on Main | Hamilton Pl Sales | Total |
|---|------------------|------------------|------------------|-------------------|------------------|-------------------|-------------------|-------------------|---------------------|
| Revenues | | | | | | | | | |
| Rental Income | 363,135 | 260,062 | 227,195 | 317,657 | 61,771 | 179,855 | 588,842 | 102,449 | 2,100,966 |
| Laundry and Sundry Income | 1,276 | 1,588 | 7,973 | 4,193 | | | 6,852 | | 21,882 |
| | 364,411 | 261,650 | 235,168 | 321,850 | 61,771 | 179,855 | 595,693 | 102,449 | 2,122,848 |
| Expenses | | | | | | | | | |
| Administrative | 3,796 | 7,612 | 6,585 | 14,413 | 2,163 | 45,860 | 14,283 | 2,426 | 97,138 |
| Depreciation and Amortization | 110,908 | 82,538 | 97,205 | 246,246 | 14,623 | 158,935 | 511,314 | 82,067 | 1,303,836 |
| Interest | 201,673 | 133,738 | 71,050 | 224,984 | 34,542 | 86,075 | 218,910 | 38,260 | 1,009,232 |
| Management Fees | 14,353 | 10,746 | 9,766 | 13,131 | | 7,314 | 23,860 | 3,960 | 83,130 |
| Operating | 36,432 | 18,514 | 673 | 13,144 | | 23,230 | 87,288 | 1,310 | 180,591 |
| Renting | | 1,403 | 2,459 | 1,207 | | 1,010 | 2,960 | | 9,039 |
| Repairs and Maintenance | 17,428 | 9,136 | 73,127 | 106,969 | 23,160 | 16,698 | 73,624 | 71,122 | 391,264 |
| Taxes and Insurance | 42,652 | 27,855 | 43,956 | 71,626 | 13,258 | 18,033 | 82,187 | 29,789 | 329,356 |
| | 427,242 | 291,542 | 304,821 | 691,720 | 87,746 | 357,155 | 1,014,426 | 228,934 | 3,403,586 |
| Income Before Other Income | (62,831) | (29,892) | (69,653) | (369,870) | (25,975) | (177,300) | (418,732) | (126,485) | (1,280,738) |
| Other Income (Loss) | | | | | | | | | |
| Interest Income | 563 | 239 | 2,000 | 109 | 4 | 5,470 | 108 | 2,025 | 10,518 |
| Gain on Sale of Real Estate | | | 141,323 | 163,195 | | | | 125,252 | 429,770 |
| Other Income (Expenses) | 563 | 239 | 143,323 | 163,304 | 4 | 5,470 | 108 | 127,277 | 440,288 |
| Net Income (Loss) | (62,268) | (29,653) | 73,670 | (206,566) | (25,971) | (171,830) | (418,624) | 792 | (840,450) |
| P&L- NERA 50% | | | | | | | | | |
| | (31,134) | (14,827) | 36,835 | (103,283) | (12,986) | (85,915) | (209,312) | 396 | (420,225) |
| Total units/condominiums | | | | | | | | | |
| Units to be retained | 49 | 40 | 176 | 120 | 48 | 42 | 146 | 137 | 758 |
| Units to be sold | 49 | 40 | 49 | 0 | 48 | 42 | 146 | 0 | 374 |
| | | | 127 | 120 | | | | 137 | 384 |
| Units sold through April 30, 2007 | | | 112 | 55 | | | | 101 | 268 |
| Balance of unsold units | | | 15 | 65 | | | | 36 | 116 |
| Unsold units with deposits for future sale as of April 30, 2007 | | | 5 | 9 | | | | 5 | 19 |

Summary financial information for the three months ended March 31, 2006 (unaudited)

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| Acquisition Date | Franklin Street November 2001 | Hamilton Place August 2004 | Hamilton Place August 2004 | Hamilton Minuteman August 2004 | Essex 81 March 2005 | 1025 Hamilton March 2005 | Hamilton Bay October 2005 | Total |
|---|-------------------------------|----------------------------|----------------------------|--------------------------------|---------------------|--------------------------|---------------------------|-------------|
| Property assets net | 9,893,274 | 27,200,000 | 13,822,494 | 9,259,909 | 14,175,975 | 11,390,302 | 28,793,802 | 114,535,756 |
| Mortgages payable | 7,794,113 | 16,825,000 | 8,237,677 | 7,879,510 | 10,750,000 | 7,864,340 | 23,775,924 | 83,126,564 |
| Total Equity | 2,007,648 | 14,047,811 | 2,891,541 | 1,659,456 | 3,459,258 | 4,197,222 | 4,522,369 | 32,785,305 |
| NERA 50% equity | 1,003,824 | 7,023,905 | 1,445,771 | 829,728 | 1,729,629 | 2,098,611 | 2,261,184 | 16,392,652 |
| Summary income statement: | | | | | | | | |
| Rental income | 253,398 | 606,322 | 180,974 | 174,759 | 341,230 | 238,536 | 489,274 | 2,284,493 |
| Operating expenses | 64,878 | 224,589 | 160,155 | 62,233 | 139,081 | 301,712 | 475,452 | 1,428,100 |
| Management fees | 10,141 | 24,102 | 1,917 | 7,028 | 13,921 | 2,981 | 12,450 | 72,540 |
| Interest expense | 135,615 | 218,780 | 145,924 | 134,077 | 181,684 | 149,574 | 427,956 | 1,393,610 |
| Depreciation & amortization | 88,910 | 366,859 | 121,879 | 132,630 | 109,849 | 140,046 | 273,535 | 1,233,708 |
| Financing expense | | | | | | | | |
| Gain on sale of condominiums | | | 144,962 | | | 427,133 | 781,011 | 1,353,106 |
| Net profit (loss) | (46,146) | (228,008) | (103,939) | (161,209) | (103,305) | 71,356 | 80,892 | (490,359) |
| NERA 50% | (23,073) | (114,004) | (51,969) | (80,605) | (51,653) | 35,678 | 40,446 | (245,180) |
| Total units/ condominiums | 40 | 146 | 137 | 42 | 49 | 176 | 168 | 758 |
| Units to be retained | 40 | 146 | 0 | 42 | 49 | 49 | 48 | 374 |
| Units to be sold | 0 | 0 | 137 | 0 | 0 | 127 | 120 | 384 |
| Units sold through April 24, 2006 | 0 | 0 | 69 | 0 | 0 | 91 | 13 | 173 |
| Balance of unsold units | 0 | 0 | 68 | 0 | 0 | 36 | 107 | 211 |
| Unsold units with deposits for future sale as of April 24, 2006 | 0 | 0 | 8 | 0 | 0 | 7 | 13 | 28 |

Interest rates, the majority of which are variable, range from 5.18% to 7.48% at March 31, 2007.

NOTE 15. NEW ACCOUNTING PRONOUNCEMENT

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

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

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

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

NOTE 16. DISCONTINUED OPERATIONS and SALES of REAL ESTATE

The following tables summarize income from discontinued operations and the related realized gain on sale of rental property for the three months ended March 31, 2007 and 2006:

| | Three Months Ended | |
|--|---------------------------|--------------|
| | March 31 | |
| | 2007 | 2006 |
| Total Revenues | \$ | \$ |
| Operating and other expenses | | 10,125 |
| Depreciation and amortization | | 10,125 |
| Income (loss) from discontinued operations | | (10,125) |
| Gain on sale of discontinued operations | \$ | \$ (10,125) |

Item 2 MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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

The Massachusetts economy continues to grow at a modest rate. Office vacancy rates in metropolitan Boston, an indicator of present and future growth, have continued to decline thereby improving the prospects of low residential vacancy rates and upward pressure on rental rates. Rental revenue has increased slightly at the majority of the properties and operating expenses have increased at a faster rate than revenue resulting in a decrease in income from operations. Management continues to place emphasis on tenant retention amidst the competitive backdrop of newer housing product and a low interest rate environment which has provided alternative housing choices for our residential customers. Management believes that upward pressure on rental rates may occur in the 2nd and 3rd quarters of 2007 during the renewal season; however there will be equal pressure on operating expenses related to energy, taxes, and insurance and therefore it is unclear if operating income in 2007 will outpace 2006.

Management anticipates that the operating loss at the joint venture properties, net of depreciation, will decrease as condominium units are sold thereby reducing mortgage interest expense and vacancy losses. Though slow for the first quarter, condominium sales have picked up and management believes it is on track to close out two of the three joint ventures held for sale returning approximately \$3.4 million of capital by year end.

The Partnership has retained The Hamilton Company (Hamilton) to manage and administer the Partnership's properties. Hamilton is a full-service real estate management company, which has legal, construction, maintenance, architectural, accounting and administrative departments. The Partnership's properties represent approximately 40% of the total properties and 70% of the residential properties managed by Hamilton. Substantially all of the other properties managed by Hamilton are owned - wholly or partially, directly or indirectly - by Harold Brown. The Partnership's Second Amended and Restated Contract of Limited Partnership (the Partnership Agreement) expressly provides that the general partner may employ a management company to manage the properties, and that such management company may be paid a fee of 4% of rental receipts for administrative and management services (the Management Fee). The Partnership annually pays Hamilton the full Management Fee, in monthly installments.

Harold Brown, his brother Ronald Brown and the President of Hamilton, Carl Valeri, collectively own approximately 22.2% of the depository receipts representing the Partnership Class A Units (including depository receipts held by trusts for the benefit of such persons' family members). Harold Brown also owns 75% of the Partnership's Class B Units, 75% of the capital stock of NewReal, Inc. (NewReal), the Partnership's sole general partner, and all of the outstanding stock of Hamilton. Ronald Brown also owns 25% of the Partnership's Class B Units and 25% of NewReal's capital stock. In addition, Ronald Brown is the President and director of NewReal and Harold Brown is NewReal's Treasurer and also a director. Three of NewReal's other directors Thomas Raffoul, Conrad DiGregorio, and Edward Sarkesian also own immaterial amounts of the Partnership's Class A Units or receipts.

Beyond 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. In addition to the Management Fee, from time to time the Partnership pays Hamilton for repairs and maintenance services, legal services, construction services and accounting services. The costs charged by Hamilton for these services are at the same hourly rate charged to all entities managed by Hamilton, and management believes such rates are competitive in the marketplace.

Hamilton accounted for approximately 7% of the repair and maintenance expense paid for by the Partnership in the three months ended March 31, 2007 and approximately 4% for the year ended December 31, 2006. Of the funds paid to Hamilton for this purpose, the great majority was to cover the cost of services provided by the Hamilton maintenance department, including plumbing, electrical, carpentry services, and snow removal for those properties close to Hamilton's headquarters. However, several of the larger Partnership properties have their own maintenance staff. Further, those properties that do not have their own maintenance staff but 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 81% of the legal services paid for by the

Partnership during the three months ended March 31, 2007 and approximately 72% for the year ended December 31, 2006.

Additionally, as described in Note 3 to the Consolidated Financial Statements, the Hamilton Company received similar fees from the Investment Properties totaling approximately \$124,000.

R. Brown Partners, which is owned by Ronald Brown, manages five condominium units located in Brookline, Massachusetts. That entity will receive annual management fees from the five units of approximately \$1,500, and Hamilton will reduce its management fees to approximately 2%, so that the total management fee will not exceed the 4% allowed by the Partnership's Partnership Agreement.

The Partnership requires that three bids be obtained for construction contracts in excess of \$5,000. Hamilton may be one of the three bidders on a particular project and may be awarded the contract if its bid and its ability to successfully complete the project are deemed appropriate. For contracts that are not awarded to Hamilton, Hamilton charges the Partnership a construction supervision fee equal to 5% of the contract amount. Hamilton's architectural department also provides services to the Partnership on an as-needed basis. During the three months ended March 31, 2007, Hamilton provided the Partnership approximately \$5,000 in construction and architectural services, compared to \$36,000 for the year ended December 31, 2006.

Prior to 1991, the Partnership employed an outside, unaffiliated company to perform its bookkeeping and accounting functions. Since that time, such services have been provided by the accounting staff at Hamilton which consists of approximately twelve people. Hamilton currently charges the Partnership \$100,000 (\$25,000 per quarter) per year for bookkeeping and accounting services.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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The preparation of 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: Revenues from rental properties are recognized when due from tenants. Residential leases are generally for terms of one year and commercial leases are generally for five to ten years, with renewal options at increased rents. Significant commercial leases with stepped increases over the term of the lease are recorded on the straight-line basis.

Real Estate and Depreciation: Real estate assets are stated at the lower of cost or fair value, less accumulated depreciation. Costs related to the acquisition, development, construction and improvement of properties are capitalized, including interest, internal wages and benefits, real estate taxes and insurance. Capitalization usually begins with commencement of development activity and ends when the property is ready for leasing. Replacements and improvements such as HVAC equipment, structural replacements, windows, appliances,

flooring, carpeting and kitchen/bath replacements and renovations are capitalized and depreciated over their estimated useful lives as follows:

- Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. In assessing estimated useful lives, the Partnership makes assumptions based on historical experience acquired from both within and outside the Partnership. These assumptions have a direct impact on the Partnership's net income.
- Ordinary repairs and maintenance, such as unit cleaning and painting and appliance repairs, are expensed.

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

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

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

With respect to investments in and advances to the Investment Properties, the Partnership looks to the underlying properties to assess performance and the recoverability of carrying amounts for those investments in a manner similar to direct investments in real estate properties. An impairment charge is recorded if the carrying value of the investment exceeds its fair value.

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

RESULTS OF OPERATIONS

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Comparison of the three months ended March 31, 2007 to the three months ended March 31, 2006 (as adjusted for discontinued operations)

The Partnership and its Subsidiary Partnerships earned income before other income and discontinued operations of \$320,544 during the three months ended March 31, 2007 compared to \$603,587 for the three months ended March 31, 2006, a decrease of \$283,043 (47%).

The Partnership and its Subsidiary Partnerships earned income before other income and discontinued operations o

The rental activity is summarized as follows:

| | Occupancy Date | | | | | |
|--------------------|-------------------|---|---------------------|---|-------------------|---|
| | April 30, 2007 | | February 1, 2007 | | April 24, 2006 | |
| Residential | | | | | | |
| Units | 2,377 | | 2,377 | | 2,402 | |
| Vacancies | 40 | | 32 | | 30 | |
| Vacancy rate | 1.7 | % | 1.3 | % | 1.2 | % |
| Commercial | | | | | | |
| Total square feet | 84,998 | | 84,998 | | 84,998 | |
| Vacancy | 0 | | 0 | | 6,075 | |
| Vacancy rate | 0 | % | 0 | % | 7.1 | % |

| | Rental Income (in thousands) | | | |
|------------------------|--------------------------------------|--------------------------|---------------------|--------------------------|
| | Three Months Ended March 31, 2007 | | 2006 | |
| | Total Operations | Continuing Operations | Total Operations | Continuing Operations |
| Total rents | \$ 8,035 | \$ 8,035 | \$ 7,968 | \$ 7,968 |
| Residential percentage | 93 | % 93 | 93.5 | % 93.5 |
| Commercial percentage | 7 | % 7 | 6.5 | % 6.5 |
| Contingent rentals | \$ 112 | \$ 112 | \$ 390 | \$ 390 |

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

| | March 31, 2007 | March 31, 2006 | Dollar Change | Percent Change | |
|---|--------------------|---------------------|---------------------|-------------------|----------|
| Revenues: | | | | | |
| Rental income | \$ 8,034,588 | \$ 7,967,592 | \$ 66,996 | 0.8 | % |
| Laundry and sundry income | 107,845 | 124,031 | (16,186) | (13) | % |
| | 8,142,433 | 8,091,623 | 50,810 | 0.6 | % |
| Expenses: | | | | | |
| Administrative | 396,261 | 351,652 | 44,609 | 12.7 | % |
| Depreciation and amortization | 1,711,456 | 1,649,043 | 62,413 | 3.8 | % |
| Interest | 1,904,266 | 1,916,124 | (11,858) | (0.6) | % |
| Management fees | 324,052 | 321,660 | 2,392 | 0.7 | % |
| Operating | 1,418,294 | 1,291,634 | 126,660 | 9.8 | % |
| Renting | 71,507 | 55,866 | 15,641 | 28.0 | % |
| Repairs and maintenance | 1,080,745 | 1,030,728 | 50,017 | 4.9 | % |
| Taxes and insurance | 915,308 | 871,329 | 43,979 | 5.0 | % |
| | 7,821,889 | 7,488,036 | 333,853 | 4.5 | % |
| Income Before Other Income and Discontinued Operations | 320,544 | 603,587 | (283,043) | (46.9) | % |
| Other Income (Loss) | | | | | |
| Interest income | 100,126 | 93,478 | 6,648 | 7.1 | % |
| Casualty (loss) | (60,000) |) | (60,000) |) | |
| (Loss) from investment in joint ventures | (420,225) |) (245,180) |) (175,045) |) 71.4 | % |
| | (380,099) |) (151,702) |) (228,397) |) 150.6 | % |
| (Loss) Income from Continuing Operations | (59,555) |) 451,885 | (511,440) |) (113.2) | % |
| Discontinued Operations: | | | | | |
| Income (loss) from discontinued operations | | (10,125) |) 10,125 | (100) | % |
| | | (10,125) |) 10,125 | (100) | % |
| Net (Loss) Income | \$ (59,555) |) \$ 441,760 | \$ (501,315) |) (113.5) | % |

Rental income for the three months ended March 31, 2007 was approximately \$8,035,000 compared to approximately \$7,968,000 for the three months ended March 31, 2006, an increase of approximately \$67,000 (0.8%). The properties with the most significant increases include 62 Boylston Street with an increase of approximately \$36,000; Westgate Apartments with an increase of approximately \$13,000; and 1144 Commonwealth Avenue with an increase of approximately \$21,000. The majority of the Partnership's other properties experienced minimal rental income increases.

Total expenses for the three months ended March 31, 2007 were approximately \$7,822,000 compared to approximately \$7,488,000 for the three months ended March 31, 2006, an increase of approximately \$334,000 (4.5%). The most significant increases were in operating expenses of approximately \$127,000 (9.8%) due to increased utility costs; an increase in taxes and insurance of approximately \$44,000 due to increases in real estate taxes and insurance premiums; an increase in depreciation and amortization of approximately \$62,000 due to ongoing capital improvements to Partnership properties; an increase in repairs and maintenance expenses of approximately \$50,000 due to repairs to Partnership properties in an ongoing effort to maintain occupancy levels;

and an increase in administrative expenses of approximately \$45,000 due to an increase in salaries and wages as well as professional fees due to the increased SEC compliance costs. Interest expense decreased approximately \$12,000 due to a lower level of debt.

At March 31, 2007, the Partnership has a 50% ownership interest in joint ventures. The net loss on these investments is \$420,225 for the three months ended March 31, 2007 compared to a loss of \$245,180 for the three months ended March 31, 2006 an increase of \$175,045 (71.4%). This increase in loss on the investment properties is due to slower than projected sales of the units, vacancies at the properties while preparing them for resale, an increase in depreciation and amortization expense due to capital improvements, and professional fees associated with converting the properties into condominium units. See Note 14 to the Consolidated Financial Statements for financial information of these investment properties. The summaries are as follows:

Franklin Street, Cambridge, Massachusetts

The Partnership invested in a 40-unit property in 2001. The Partnership's share of loss on this investment is \$14,827 and \$23,073 for the three months ended March 31, 2007 and 2006, respectively. There was one vacant unit at April 30, 2007.

Hamilton Place, Watertown, Massachusetts

The Partnership invested in 283 units in six buildings in August 2004. The Partnership plans to sell 137 of the units as condominiums located in three buildings. At April 30, 2007, 101 units have been sold and five additional units have reservation agreements. The Partnership's share of loss for the three months ended March 31, 2007 was \$208,916 which includes a gain of \$62,626 on the sale of condominium units. The Partnership's share of loss for the three months ended March 31, 2006 was \$165,973 which includes a gain on the sale of units of \$72,481. There were eight units vacant at April 30, 2007.

Hamilton Minuteman, Lexington, Massachusetts

The Partnership invested in a 42-unit residential complex in September 2004. The Partnership's share of loss on this investment was \$85,914 and \$80,605 for the three months ended March 31, 2007 and 2006, respectively. The loss for the period includes the expensing of approximately \$40,000 of previously deferred condominium conversion costs as the conversion will not occur in the foreseeable future. There is one vacant unit at April 30, 2007.

Essex 81, Boston, Massachusetts

The Partnership invested in this property in March 2005. The property consists of 49 residential units, one commercial space, and a 50 car surface parking lot. The Partnership's share of loss on this investment is \$31,134 and \$51,653 for the three months ended March 31, 2007 and 2006 respectively. There is one vacant unit at April 30, 2007.

1025 Hamilton, Quincy, Massachusetts

The Partnership invested in a 176-unit property in March 2005. The Partnership plans to sell 127 units as condominiums. As of April 30, 2007, 112 units have been sold, and five units have been reserved. The Partnership's share of income on this investment for the three months ended March 31, 2007 is \$36,835 which includes a gain on unit sales of \$70,662. The Partnership's share of income on this investment for the three month ended March 31, 2006 was \$35,678 which includes a gain on unit sales of \$ 213,567. There are two vacant units at April 30, 2007.

Hamilton Bay, Quincy, Massachusetts

The Partnership invested \$2,500,000 in a 168 unit apartment complex in Quincy, Massachusetts in October 2005. The purchase price was \$30,875,000. The Partnership plans to sell the majority of units as condominiums and retain 48 units for long-term investment. The proceeds from the condominium sales will be used primarily to reduce the above-mentioned mortgage. Gains from the sales of units will be taxed at ordinary income rates. As of April 30, 2007, 55 units have been sold and an additional nine units have a signed purchase and sales agreement. There are seven vacant units at April 30, 2007. The Partnership's share of loss for the three months ended March 31, 2007 was \$116,268 which includes a gain of \$81,598 on the sale of condominium units. The Partnership's share of income for the three months ended March 31, 2006 was \$40,446 which includes a gain of \$390,506 on the sale of condominium units.

Interest income was approximately \$100,000 for the three months ended March 31, 2007 compared to approximately \$93,000 for the three months ended March 31, 2006, an increase of approximately \$7,000 (7.1%). This increase reflects an increase in interest rates.

As a result of the changes discussed above, net loss for the three months ended March 31, 2007 was \$59,555 compared to income of \$441,760 for the three months ended March 31, 2006, a decrease of \$501,315 (113.5%).

LIQUIDITY AND CAPITAL RESOURCES

The Partnership's principal source of cash during 2007 and 2006 was the collection of rents.

The majority of cash and cash equivalents of \$10,225,132 at March 31, 2007 and \$9,773,250 at December 31, 2006 were held in interest bearing accounts at creditworthy financial institutions.

This increase of \$451,882 for the three months ended March 31, 2007 is summarized as follows:

| | Three Months Ended | |
|--|---------------------------|--------------|
| | March 31, | |
| | 2007 | 2006 |
| Cash provided by operating activities | \$ 2,298,414 | \$ 2,078,789 |
| Cash (used in) investing activities | (366,789) | (718,946) |
| Cash (used in) financing activities | (268,939) | (195,870) |
| Distributions paid | (1,210,804) | (1,210,804) |
| Net increase (decrease) in cash and cash equivalents | \$ 451,882 | \$ (46,831) |

The cash provided by operating activities is primarily due to the depreciation expense as well as a non cash loss on the investment in joint ventures. The decrease in cash used in investing activities is due to a distribution from the joint ventures during the three months ended March 31, 2007 and continued capital improvements to Partnership properties. The increase in cash used in financing activities is due to the principal payments on the mortgage notes payable.

During the three months ended March 31, 2007 the Partnership received a distribution of \$200,000 from the joint venture compared to an investment of \$300,000 in the joint venture during the three months ended March 31, 2006. See Note 14 of the Consolidated Financial Statements for additional information on the joint ventures and the related financial information.

The Partnership paid a quarterly distribution of \$7.00 per unit (\$0.70 per depositary receipts) on March 31, 2007 for a total distribution of \$1,210,804. Management anticipates that similar distributions will continue to be made during 2007.

During the three months ended March 31, 2007, the Partnership and its Subsidiary Partnerships completed certain improvements to their properties at a total cost of approximately \$567,000. The most significant improvements were made at the following properties: approximately \$86,000 at Executive Apartments in Framingham, Massachusetts; approximately \$65,000 at Westgate Apartments in Woburn, Massachusetts; approximately \$59,000 at 62 Boylston Street in Boston, Massachusetts; approximately \$56,000 at Hamilton Oaks in Brockton, Massachusetts; and approximately \$45,000 at Westside Colonial in Brockton, Massachusetts. All such improvements were funded from the Partnership's cash reserves and escrow accounts established in connection with the financing of applicable properties.

In addition to the improvements made to date in 2007, the Partnership and its Subsidiary Partnerships plan to invest approximately \$1,421,000 in capital improvements during the balance of 2007, the majority of which will be spent at 1144 Commonwealth Avenue, Westside Colonial, Redwood Hills, School Street and Westgate Woburn. These improvements will be funded from escrow accounts established in connection with the financing of applicable properties, as well as from the Partnership's cash.

As of March 31, 2007, the Partnership had a 50% ownership in eight joint ventures, all of which have mortgage indebtedness. We do not have control of these partnerships and therefore we account for them using the equity method of consolidation. At March 31, 2007, our proportionate share of the non-recourse debt related to these investments was equal to approximately \$30,830,000. See Note 14 to the Consolidated Financial Statements for details of the investment in joint ventures including results of operations, equity and units sales.

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

Contractual Obligations

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

Factors That May Affect Future Results

Certain information contained herein includes forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Liquidation Reform Act of 1995 (the "Act"). While forward looking statements reflect management's good faith beliefs when those statements are made, caution should be exercised in interpreting and relying on such forward looking statements, the realization of which may be impacted by known and unknown risks and uncertainties, events that may occur subsequent to the forward-looking statements, and other factors which may be beyond the Partnership's control and which can materially affect the Partnership's actual results, performance or achievements for 2007 and beyond.

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

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

The Partnership is subject to the general economic risks affecting the real estate industry, such as dependence on tenants' financial condition and the need to enter into new leases or renew leases on terms favorable to tenants in order to generate rental revenues. The Partnership is also impacted by changing economic conditions making alternative housing arrangements more or less attractive to the Partnership's tenants, such as the interest rates on single family home mortgages and the availability and purchase price of single-family homes in the Greater Boston metropolitan area.

The Partnership is subject to significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs, which are generally not reduced when circumstances cause a reduction in revenues from a property.

The Partnership is subject to increases in heating and utility costs that may arise as a result of economic and market conditions and fluctuations in seasonal weather conditions.

Civil disturbances, earthquakes and other natural disasters may result in uninsured or underinsured losses.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

Financing or refinancing of Partnership properties may not be available to the extent necessary or desirable, or may not be available on favorable terms.

The Partnership properties face competition from similar properties in the same market. This competition may affect the Partnership's ability to attract and retain tenants and may reduce the rents that can be charged.

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

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

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

Changes in the 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.

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

Competition for acquisitions may result in increased prices for properties.

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

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

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

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

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

Since the Partnership's long-term goals include the acquisition of additional properties, a portion of the proceeds from the refinancing and sale of properties is reserved for this purpose. The Partnership will consider refinancing existing properties if the Partnership's cash reserves are insufficient to repay existing mortgages or if the Partnership needs additional funds for future acquisitions.

Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2007, the Partnership and its subsidiary Partnerships collectively have approximately \$114,400,000 in long-term debt, all of which have fixed interest rates. Accordingly, the fair value of these debt instruments is affected by changes in market interest rates. For information regarding the fair value and maturity dates of these debt obligations, see Notes 5 and 12 to the Consolidated Financial Statements.

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

Item 4 CONTROLS AND PROCEDURES

Our principal executive officer and principal financial officer have as of the end of the period covered by this quarterly report, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) and have determined that such disclosure controls and procedures are effective. There have been no changes in internal controls or in other factors that have materially affected or are reasonably likely to materially affect our internal controls since the date of evaluation. We do not believe any significant deficiencies or material weaknesses exist in our internal controls. Accordingly, no corrective actions have been taken. We continue to review and document our disclosure controls and procedures, including our internal controls over financial reporting, and may from time to time, make changes aimed at enhancing their effectiveness and to ensure our systems evolve with our business.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There is no material pending legal proceedings.

Item 1A. Risk Factors

There were no material changes to the Risk Factors disclosed in our annual report on Form 10-K for the year ended December 31, 2006.

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) See the exhibit index below.

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SIGNATURES

Pursuant to the requirements 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.

Date: May 10, 2007

NEW ENGLAND REALTY ASSOCIATES
LIMITED PARTNERSHIP

By: NEWREAL, INC.,
its General Partner*

By: /s/ Ronald Brown
Ronald Brown, President

* Functional equivalent of Chief Executive Officer, Principal
Financial Officer and Principal Accounting Officer

EXHIBIT INDEX

Exhibit

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

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