SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended MARCH 31, 1997

OR

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

For the transition period from ______________ to ___________

Commission file number 1-9516

(Exact name of registrant as specified in its charter)
AMERICAN REAL ESTATE PARTNERS, L.P.

Delaware	13-3398766
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 SOUTH BEDFORD ROAD, MT. KISCO, NY	10549
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (914) 242-7700

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 X No

1-Q3-97.EDG

AMERICAN REAL ESTATE PARTNERS, L.P. - FORM 10Q MARCH 31, 1997

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PART I. FINANCIAL INFORMATION

The financial information contained herein is unaudited; however, in the opinion of management, all adjustments necessary for a fair presentation of such financial information have been included. All such adjustments are of a normal recurring nature.

CONSOLIDATED BALANCE SHEETS

	MARCH 31, 1997 (UNAUDITED)	DECEMBER 31, 1996
ASSETS		
Real estate leased to others:		
Accounted for under the financing method	$ 246,659,874	$ 253,781,903
Accounted for under the operating method, net of accumulated depreciation	99,667,532	103,402,315
Cash and cash equivalents	246,563,171	105,543,329
Marketable securities	-	106,172,301
Investments in limited partnerships	24,376,971	29,947,816
Mortgages and note receivable	13,183,108	15,225,405
Hotel operating properties, net of accumulated depreciation	12,753,858	12,955,389
Receivables and other assets	9,730,698	8,604,646
Property held for sale	3,164,065	3,698,112
Debt placement costs, net of accumulated amortization	1,200,424	1,299,053
Construction in progress	754,840	679.400
Total	$ 658,054,541	$ 641,309,669

Continued.....

CONSOLIDATED BALANCE SHEETS- Continued

	MARCH 31, 1997 (UNAUDITED)	DECEMBER 31, 1996
LIABILITIES		
Mortgages payable	$ 118,867,168	$ 115,911,504
Senior indebtedness	22,615,552	22,615,552
Accounts payable, accrued expenses and other liabilities	9,763,191	12,248,555
Deferred income	3,459,132	3,460,042
Distributions payable	549,363	1,514,605
Total liabilities	155,254,406	155,750,258
Commitments and Contingencies (Notes 2 and 3)		
PARTNERS' EQUITY		
Limited partners:		
Preferred units, $10 liquidation preference, 5% cumulative pay-in-kind redeemable; 4,200,000 authorized; 2,178,143 and 2,074,422 issued and outstanding as of March 31, 1997 and Dec. 31, 1996	21,781,431	21,522,128
Depositary units; 26,850,000 authorized; 25,666,640 outstanding	481,974,282	465,335,952
General partner	10,228,287	9,885,196
Treasury units at cost: 1,037,200 depositary units	(11,183,865)	(11,183,865)
Total partners' equity	502,800,135	485,559,411
Total	$ 658,054,541	$ 641,309,669

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 1997	1996
Revenues:		
Interest income:		
Financing leases	$ 6,096,337	$ 6,916,062
Other	2,353,616	2,617,231

Rental income	4,220,399	5,015,230
Hotel operating income	3,178,864	3,254,788
Other income	85,063	2,788,213
Dividend income	1,364,338	-
	17,298,617	20,591,524
Expenses:		
Interest expense	3,317,478	4,479,786
Depreciation and amortization	1,484,814	1,453,514
General and administrative expenses	717,598	676,629
Property expenses	1,017,509	1,025,873
Hotel operating expenses	2,156,132	2,006,916
	8,693,531	9,642,718
Earnings before properties and securities transactions	8,605,086	10,948,806
Gain on sales and disposition of real estate	2,956,578	52,475
Gain on sale of marketable securities	29,227,464	-
NET EARNINGS	$ 40,789,128	$ 11,001,281
Net earnings attributable to:		
Limited partners	$ 39,977,424	$ 10,782,356
General partner	811,704	218,925
	$ 40,789,128	$ 11,001,281
Net earnings per limited partnership unit (Note 12):	$ 1.43	$ .39
Weighted average limited partnership units and equivalent partnership units outstanding	27,878,111	27,947,275

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY

THREE MONTHS ENDED MARCH 31, 1997
(UNAUDITED)

	GENERAL PARTNER'S EQUITY	LIMITED PARTNERS' EQUITY		HELD IN TREASURY	TOTAL PARTNERS' EQUITY
		DEPOSITARY UNITS	PREFERRED UNITS		
Balance Dec. 31, 1996	$9,885,196	$465,335,952	$21,522,128	$(11,183,865)	$485,559,411
Net earnings	811,704	39,977,424	-	-	40,789,128
Sale of marketable					

securities available for sale	(468,613)	(23,079,791)	-	-	(23,548,404)
Pay-in-kind distribution	-	(259,303)	259,303	-	-
Balance - March 31, 1997	$10,228,287	$481,974,282	$21,781,431	$(11,183,865)	$502,800,135

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 40,789,128	$ 11,001,281
Adjustments to reconcile earnings to net cash provided by operating activities:		
Depreciation and amortization	1,484,814	1,453,514
Amortization of deferred income	(6,554)	(6,554)
Gain on sales and disposition of real estate	(2,956,578)	(52,475)
Gain on sale of marketable securities	(29,227,464)	-
Changes in:		
Decrease in deferred income	(910)	(910)
Increase in receivables and other assets	(573,926)	(324,721)
(Decrease) increase in accounts payable and accrued expenses	(2,557,852)	855,292
Net cash provided by operating activities	6,950,658	12,925,427
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in mortgages and note receivable	1,961,986	102,112
Net proceeds from the sale and disposition of real estate	10,886,091	289,760
Principal payments received on leases accounted for under the financing method	1,844,699	1,842,643
Construction in progress	(75,441)	(1,723,710)
Principal receipts on mortgages receivable	86,866	79,631
Capitalized expenditures for real estate	(874,153)	(419,841)
Investments in limited partnerships	5,570,845	-
Net proceeds from the sale of marketable securities	111,823,226	-
Net cash provided by investing activities	131,224,119	170,595
CASH FLOWS FROM FINANCING ACTIVITIES:		
Partners' equity:		
Expenses of the Rights Offering	-	(6,407)
Distributions to partners	(965,242)	(37,136)
Debt:		
Increase (decrease) in mortgages payable	8,711,864	(313,156)
Periodic principal payments	(1,841,002)	(2,231,300)
Balloon payments	(3,025,141)	(1,859,486)
Increase in construction loan payable	-	1,562,907
Debt placement costs	(35,414)	(61,807)
Net cash provided by (used in) financing activities	2,845,065	(2,946,385)
NET INCREASE IN CASH		

AND CASH EQUIVALENTS	141,019,842	10,149,637
CASH AND CASH EQUIVALENTS, beginning of period	105,543,329	166,261,635
CASH AND CASH EQUIVALENTS, end of period	$ 246,563,171	$ 176,411,272

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
SUPPLEMENTAL INFORMATION:		
Cash payments for interest	$ 3,152,695	$ 3,690,147
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Reclassification of real estate:		
To property held for sale	$ 356,471	$ 761,741
From operating lease	(356,471)	(761,741)
From construction in progress	-	(3,984,819)
To operating lease	-	3,984,819
	$ -	$ -

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. GENERAL

The accompanying consolidated financial statements and related footnotes should be read in conjunction with the consolidated financial statements and related footnotes contained in the Company's annual report on Form 10-K for the year ended December 31, 1996.

The results of operations for the three months ended March 31, 1997 are not necessarily indicative of the results to be expected for the full year.

2. CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES

A. From the commencement of the Exchange through March 31, 1997 the Company (i) sold or disposed of an aggregate of 156 properties of the Predecessor Partnerships for an aggregate amount of approximately $90,474,000 net of associated indebtedness which encumbered such properties at the consummation of the Exchange and (ii) refinanced 25 Predecessor Partnerships' properties with an aggregate appraised value, net of the amount of the refinanced debt, of approximately $37,672,000 for a sum total of approximately $128,146,000. Aggregate appraised values attributable to such properties for purposes of the Exchange were approximately $140,161,000. Sixteen acquisitions have been made since the commencement of the Exchange, including two joint ventures entered into in 1994 to develop two apartment complexes, for an aggregate investment of approximately $58,000,000. Reinvestment incentive fees of approximately $480,000 have previously been paid to the General Partner. There were no properties acquired in the three months ended March 31, 1997.

B. The Company and certain affiliates of its General Partner entered into an agreement with the third-party landlord of its leased executive office space. In accordance with the agreement, the Company entered into a lease, expiring in 2001, for 7,920 square feet of office space, at an annual rental of approximately $153,000. The Company has sublet to certain affiliates 3,205 square feet at an annual rental of approximately $62,000, resulting in a net annual rental of approximately $91,000. During the three months ended March 31, 1997, the affiliates paid the Company approximately $15,000 for rent of the sublet space. Such payments have been approved by the Audit Committee of the Board of Directors of the General Partner.

C. An affiliate of the General Partner provided certain administrative services in the amount of $750 in the three period ended March 31, 1997. Such reimbursement has been approved by the Audit Committee of the Board of Directors of the General Partner.

D. As of March 31, 1997, High Coast Limited Partnership, an affiliate of Carl C. Icahn, the Chairman of American Property Investors, Inc. (" API") owns 1,920,945 Preferred Units and 13,895,712 Depositary Units.

3. COMMITMENTS AND CONTINGENCIES

A. Lockheed Missile & Space Company, Inc. ("Lockheed"), a tenant of the Company's leasehold property in Palo Alto, California, has entered into a consent decree with the California Department of Toxic Substances Control ("CDTS") to undertake certain environmental remediation at this property. Lockheed has estimated that the environmental remediation costs may be up to

approximately $14,000,000. In a non-binding determination by the CDTS, Lockheed was found responsible for approximately 75% of such costs and the balance was allocated to other parties. The Company was allocated no responsibility for any such costs.

Lockheed has served a notice that it may exercise its statutory right to have its liability reassessed in a binding arbitration proceeding. In connection with this notice, Lockheed has stated that it will attempt to have allocated to the Company and to the Company's ground-lessor (which may claim a right of indemnity against the Company) approximately 9% and 17%, respectively, of the total remediation costs. The Company believes that it has no liability for any of such costs and in any proceeding in which such liability is asserted against it, the Company will vigorously contest such liability. In the event any of such liability is allocated to the Company, it will seek indemnification from Lockheed in accordance with its lease.

B. On June 23, 1995, Bradlees Stores, Inc., a tenant leasing four properties owned by the Company, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The annual rentals for these four properties is approximately $1,320,000. The tenant is current in its obligations under the leases. The tenant has not yet determined whether it will exercise its right to reject or affirm the leases which will require an order of the Bankruptcy Court. There are existing assignors who are still obligated to fulfill all of the terms and conditions of the leases.

At March 31, 1997, the carrying value of these four properties is approximately $7,193,000. One of the properties is encumbered by a nonrecourse mortgage payable of approximately $990,000.

C. On September 18, 1995, Caldor Corp., a tenant leasing a property owned by the Company, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The annual rental for this property is approximately $248,000. The tenant is current in its obligations under the lease with the exception of approximately $12,000 of pre-petition rent. The tenant has not yet determined whether it will exercise its right to reject or affirm the lease which will require an order of the Bankruptcy Court. At March 31, 1997, the property has a carrying value of approximately $1,925,000 and is unencumbered by any mortgage.

D. On September 24, 1996, Best Products, a tenant leasing a property owned by the Company, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The annual rental for this property is approximately $508,000. The tenant is current in its obligations under the lease. The tenant has decided to exercise its right to reject the lease effective April 30, 1997 subject to approval of the Bankruptcy Court. At March 31, 1997, the property has a carrying value of approximately $3,373,000 and is unencumbered by any mortgage.

E. The current owners of a Long Beach, California property formerly owned by the Company have commenced an action against the Company, former owners and tenants of the property seeking indemnification for the costs of remediating an environmental condition alleged to have been caused by the dry cleaner at this shopping center. The Company had acquired this property in a sale-leaseback transaction and will seek indemnification from the seller and master tenant of the property, pursuant to the terms of the former lease, if any liability is allocated to it.

4. MARKETABLE SECURITIES

In 1996, the Company purchased 3,121,700 shares of RJR Nabisco Holdings Corp. ("RJR") common stock at a cost of approximately $82,596,000. Carl C. Icahn, the Chairman of the Board of the General Partner, owned (through affiliates) an additional 16,808,100 shares of RJR.

In February 1997, the Company sold its entire interest in RJR for net proceeds of approximately $111,823,000 realizing a gain of approximately $29,227,000 in the three months ended March 31, 1997. The Company's pro rata share of third party expenses relating to such RJR investment was approximately $2,115,000 which was approved by the Audit Committee and paid in the three months ended March 31,1997.

5. INVESTMENT IN LIMITED PARTNERSHIP UNITS

A. On June 12, 1996, the Company's subsidiary, American Real Estate Holdings, L.P. ("AREH") entered into an agreement with non-affiliated third parties and became a member of a limited liability company, Beattie Place LLC ("Beattie"). The purpose of Beattie is to acquire, hold, and ultimately dispose of limited partnership units in ten Balcor Limited Partnerships (the "Balcor Units") in connection with previously commenced tender offers. These Balcor limited partnerships own and operate commercial and multi-family real estate properties nationwide. AREH agreed to purchase a non-voting membership interest in Beattie of approximately 71.5%.
As of March 31, 1997, Beattie has purchased approximately 118,720 Balcor Units of which approximately 84,800 Balcor Units represent the Company's pro rata share. A total of approximately $3,395,000 was invested by the Company net of approximately $6,605,000 of return of capital distributions received to date which includes approximately $4,703,000 received during the three months ended

March 31, 1997. Approximately $348,000 of income distributions were received and recorded as " Dividend income" in the three months ended March 31, 1997.
In April 1997, the Company received the first quarter 1997 distribution of

approximately $2,500,000 representing approximately $197,000 of income distribution and $2,303,000 of return of capital.

B. On July 17, 1996, the Company's subsidiary, American Real Estate Holdings Limited Partnership ("AREH") and an affiliate of the General Partner, Bayswater Realty and Capital Corp. ("Bayswater") became partners of Boreas Partners, L.P., ("Boreas"), a Delaware limited partnership. AREH's total interests are 70%. Boreas together with unaffiliated third parties entered into an agreement and became limited partners of Raleigh Capital Associates, L.P. ("Raleigh") for the purpose of making a tender offer for up to 46% of the outstanding limited partnership and assignee interests ("Units") of Arvida/JMB Partners, L.P. ("Arvida") a real estate partnership. Boreas and the affiliated general partner have a total interest in Raleigh of 33 1/3%. As of March 31, 1997, Boreas has invested approximately $14,025,000 in Raleigh, net of approximately $3,625,000 of returned excess capital, which represents approximately 27,000 of the outstanding units. In March 1997, the Company received approximately $1,333,000 of income distribution, representing Arvida's 1996 cash flow distribution, which was recorded as "Dividend income" in the three months ended March 31, 1997.

In April 1997, Boreas made an additional capital contribution of approximately $4,333,000 for the purpose of acquiring additional tendered units.

The Company has consolidated Boreas in the accompanying financial statements

and approximately $4,200,000 representing Bayswater's minority interest has been included in "Accounts payable, accrued expenses, and other liabilities."

C. The company is also currently involved in three other tender offers for limited partnership units. As of March 31, 1997, the Company has invested (i)approximately $3,631,000 in seven Dean Witter Realty Limited Partnerships, net of approximately $788,000 of return of capital distributions received in the three months ended March 31, 1997; in addition, approximately $91,000 of income distributions have been received in the three months then ended, (ii) approximately $1,276,000 in nine First Capital Limited Partnerships and (iii) approximately $1,950,000 in five Krupp Limited Partnerships.

Investment in these limited partnership units are accounted for under the cost method with income distributions reflected in earnings and return of capital distributions as a reduction of investment.

6. PROPERTY HELD FOR SALE

At March 31, 1997, the Company owned eleven properties that were being actively marketed for sale. At March 31, 1997, these properties have been stated at the lower of their carrying value or net realizable value. The aggregate net realizable value of the properties is estimated to be approximately $3,163,000.

7. SIGNIFICANT PROPERTY TRANSACTIONS

A. On January 7, 1997, the Company sold three properties tenanted by Federal Realty Investment Trust (" FRIT")for a total selling price of approximately

$9,363,000. Two first mortgages with principal balances outstanding of approximately $878,000 were repaid at closing. In addition, closing costs of approximately $90,000 were incurred. As a result, the Company recognized a gain of approximately $1,500,000 in the three months ended March 31, 1997.

In addition, on January 7, 1997, FRIT made a loan to the Company in the approximate amount of $8,759,000 secured by a fourth property tenanted by FRIT located in Broomal, PA. Concurrently with this loan, the Company granted and FRIT exercised an option to purchase the Broomal property with a closing to occur on or about June 30, 1998. The purchase price will be the unpaid balance of the mortgage loan of approximately $8,500,000 at the closing date. The nonrecourse mortgage loan bears interest at the rate of 8% per annum and requires monthly debt service payments of approximately $72,000.

B. On January 16, 1997 the Company sold the Travelodge hotel it had been operating since January 18, 1996 when the former tenant, Forte Hotels, Inc. entered into a Lease Termination and Mutual Release Agreement. The selling

price was approximately $2,140,000, net of closing costs. A gain of approximately $1,380,000 was recorded in the three months ended March 31, 1997.

8. DISTRIBUTIONS PAYABLE

Distributions payable represent amounts accrued and unpaid due to non-consenting investors ("Non-consents"). Non-consents are those investors who have not yet exchanged their limited partnership interests in the various Predecessor Partnerships for limited partnership units of American Real Estate

Partners, L.P. In the three months ended March 31, 1997, approximately $935,000 of distributions due to non-consents was paid to certain states pursuant to local escheatment laws.

9. PREFERRED UNITS

Pursuant to the terms of the Preferred Units, on February 28, 1997, the Company declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10. The distribution was payable March 31, 1997 to holders of record as of March 14, 1997. A total of 103,721 additional Preferred Units were issued. As of March 31, 1997, 2,178,143 Preferred Units are issued and outstanding.

11. EARNINGS PER SHARE

Net earnings per limited partnership unit and equivalent partnership units are computed using the weighted average number of units and equivalent units outstanding during the period. For the three month periods ended March 31, 1997 and 1996, the dilutive effect of preferred units and the pro rata quarterly portion of the annual pay-in-kind distribution to preferred unitholders have been included in the earnings per share calculation, as calculated under the effective yield method, as equivalent depositary units.

12. NEWLY ISSUED ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 establishes new standards for computing and presenting earnings per share ("EPS"). Specifically, SFAS 128 replaces the currently required presentation of primary EPS with a presentation of basic EPS and requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997; earlier application is not permitted. Pro forma EPS computed under SFAS 128 would have been as follows:

Net earnings per limited partnership units (Notes 11 and 12):

Basic	$1.55
Diluted	$1.44

13. SUBSEQUENT EVENTS

In April 1997, the Company sold the Holiday Inn hotel located in Phoenix, Arizona. The selling price was approximately $15,350,000, net of

approximately $400,000 of closing costs. A gain of approximately $7,500,000 will be recognized in the second quarter of 1997.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Historically, substantially all of the Company's real estate assets have been net leased to single corporate tenants under long-term leases. With certain exceptions, these tenants are required to pay all expenses relating to the leased property and therefore the Company is not typically responsible for payment of expenses, such as maintenance, utilities, taxes and insurance associated with such properties. Economic conditions in recent years led the General Partner to reexamine the Company's cash needs and investment opportunities. Tenant defaults and lease expirations caused rental revenues to decrease and property management and certain operating expenses to increase and led to expenditures to re-let. The General Partner determined to conserve cash and establish reserves from time to time and distributions were

suspended. As discussed below, the Company's investment strategy is to apply its capital transaction proceeds toward its investments.

By the end of the year 2000, net leases representing approximately 23% of the Company's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net leases representing approximately 42% of the Company's net annual rentals will be due for renewal. Since most of the Company's properties are net-leased to single, corporate tenants, it is

expected that it may be difficult and time-consuming to re-lease or sell those properties that existing tenants decline to re-let or purchase and the Company may be required to incur expenditures to renovate such properties for new tenants. In addition, the Company may become responsible for the payment of certain operating expenses, including maintenance, utilities, taxes, insurance and environmental compliance costs associated with such properties, which are presently the responsibility of the tenant. As a result, the Company could experience an adverse impact on net cash flow from such properties.

As a consequence of the foregoing, the Company decided to raise funds through the Rights Offering to increase its assets available for investment, take advantage of investment opportunities, further diversify its portfolio and mitigate against the impact of potential lease expirations. The Rights Offering was completed during April 1995 and net proceeds of approximately $107.6 million were raised for investment purposes. In order to enhance the Company's investment portfolio (and ultimately its asset values and cash flow prospects), the Company is seeking to acquire investments in undervalued assets, including commercial properties, residential development projects, land parcels for the future development of residential and commercial properties, non-performing loans and securities of entities which own, manage or develop significant real estate assets, including limited partnership units and securities issued by real estate investment trusts. Such assets may not be generating a positive cash flow in the near term; however, the General Partner believes that the acquisition of properties requiring some degree of management or development activity have the greatest potential for growth, both in terms of capital appreciation and the generation of cash flow. These

types of investments may involve debt restructuring, capital improvements and active asset management and by their nature as under-performing assets may not

be readily financeable. As such, they require the Company to maintain a strong capital base. The Company notes that acquisition opportunities in the real estate market for value-added investors have become more competitive to source and the increased competition may have some impact on the spreads and the ability to find quality assets that provide returns that are sought.

An amendment to the Partnership Agreement (the " Amendment") became effective in August, 1996 which permits the Company to invest in securities issued by companies that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate while remaining in the real estate business and continuing to pursue suitable investments for the Company in the real estate market. The Company made an investment in accordance with the Amendment in the common stock of RJR Nabisco and recognized a gain of approximately $29 million on the sale of this investment.

Expenses relating to environmental clean-up have not had a material effect on the earnings, capital expenditures, or competitive position of the Company. Management believes that substantially all such costs would be the responsibility of the tenants pursuant to lease terms. While most tenants have assumed responsibility for the environmental conditions existing on their leased property, there can be no assurance that the Company will not be deemed to be a responsible party or that the tenant will bear the costs of remediation. Also, as the Company acquires more operating properties, its exposure to environmental clean-up costs may increase. The Company completed Phase I Environmental Site Assessments of certain of its properties by third-party consultants. Based on the results of these Phase I Environmental Site Assessments, the environmental consultant has recommended that certain sites may have environmental conditions that should be further reviewed.

The Company has notified each of the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed. If such tenants do not arrange for further investigations, or remediations, if required, the Company may determine to undertake the same at its own cost. If the tenants fail to perform responsibilities under their leases referred to above, based solely upon the consultant's estimates resulting from its Phase I Environmental Site Assessments referred to above, it is presently estimated that the Company's exposure could amount to $2-3 million, however, as no Phase II Environmental Site Assessments have been conducted by the consultants, there can be no accurate estimation of the need for or extent of any required remediation, or the costs thereof. In addition, the Company is planning Phase I Environmental Site Assessments for approximately 50 more net leased properties during 1997. Phase I Environmental Site Assessments will also be performed in connection with new acquisitions and with such property refinancings as the Company may deem necessary and appropriate.

Results of Operations

Three Months Ended March 31, 1997 Compared to Three Months Ended March 31, 1996

Gross revenues decreased by approximately $3,293,000, or 16.0%, during the three months ended March 31, 1997 as compared to the same period in 1996. This decrease reflects approximate decreases of $2,703,000 in other income, $820,000, or 11.9%, in financing lease income, 795,000, or 15.8%, in rental income, $263,000, or 10.1%, in other interest income and $76,000, or 2.3%, in hotel operating income partially offset by an approximate increase of $1,364,000 in dividend income. The decrease in other income is primarily due to the Travelodge lease termination in 1996. The decrease in financing lease

income is primarily attributable to normal lease amortization and property sales. The decrease in rental income is primarily due to property sales. The decrease in other interest income is primarily due to a decrease in short-term investments. The increase in dividend income is due to the Company's investment in limited partnership units. The hotel operating revenues were generated by two hotels formerly leased to Integra, A Hotel and Restaurant

Company. The Company has been operating these hotel properties through a third party management company since August 7, 1992. The hotel revenues for the three months ended March 31, 1997 are disproportionately higher than those expected for subsequent quarters of 1997 due to the seasonal nature of the hotel properties and the subsequent sale of one hotel in April 1997.

Expenses decreased by approximately $949,000, or 9.8%, during the three months ended March 31, 1997 compared to the same period in 1996. This decrease reflects decreases of approximately $1,162,000, or 25.9%, in interest expense and $8,000, or .8%, in property expenses partially offset by increases of approximately $149,000, or 7.4%, in hotel operating expenses, $41,000, or 6.1%, in general and administrative expenses and $31,000, or 2.1%, in depreciation and amortization. The decrease in interest expense is primarily attributable to normal loan amortization and reductions due to repayments of maturing balloon debt obligations, including the Senior Unsecured Debt, as well as the sale of encumbered properties. The hotel expenses were generated from the hotels mentioned previously.

Earnings before property and securities transactions decreased during the three months ended March 31, 1997 by approximately $2,344,000 as compared to the same period in 1996, primarily due to decreased other income, financing lease income and rental income partially offset by dividend income and decreased interest expense due to repayments of maturing debt obligations.

Gain on property transactions increased by approximately $2,904,000 during the

three months ended March 31, 1997 as compared to the same period in 1996, due to differences in the size and number of transactions.

During the three months ended March 31, 1997, the Company recorded a gain on the sale of marketable securities of approximately $29,227,000 relating to its RJR stock. There was no such transaction in 1996.

Net earnings for the three months ended March 31, 1997 increased by approximately $29,788,000 as compared to the three months ended March 31, 1996

for the reasons previously stated. Due to the seasonal nature of the Company's two hotel properties previously mentioned and the subsequent sale of one hotel in April 1997, results of hotel operations for the three months ended March 31, 1997 are expected to be significantly higher than subsequent quarters of 1997.

Capital Resources and Liquitity

Generally, the cash needs of the Company for day-to-day operations have been satisfied from cash flow generated from current operations. In recent years, the Company has applied a larger portion of its cash flow to the repayment of maturing debt obligations. Cash flow from day-to- day operations represents net cash provided by operating activities (excluding working capital changes and non-recurring other income) plus principal payments received on financing leases as well as principal receipts on certain mortgages receivable reduced by periodic principal payments on mortgage debt.

The Company may not be able to re-let certain of its properties at current rentals. As previously discussed, net leases representing approximately 42%

of the Company's net annual rentals will be due for renewal by the end of the year 2002. In 1997, seven leases covering seven properties and representing approximately $812,000 in annual rentals are scheduled to expire. Four of these leases originally representing approximately $363,000 in annual rental income have been or will be re-let or renewed for approximately $358,000 in annual rentals. Such renewals are generally for a term of five years. One property, with an approximate annual rental income of $151,000, will be marketed for sale or lease when the current lease term expires. The status of two leases, with approximate annual rental income of $298,000, are uncertain at this time.

The Board of Directors of the General Partner announced that no distributions on its Depositary Units are expected to be made in 1997. In making its announcement, the Company noted it plans to continue to apply available operating cash flow toward its operations, repayment of maturing indebtedness,

tenant requirements and other capital expenditures and creation of cash reserves for contingencies including environmental matters and scheduled lease expirations. As previously reported, by the end of the year 2000, net leases representing approximately 23% of the Company's net annual rentals will be due for renewal, and by the end of the year 2002, 42% of such rentals will be due for renewal. Another factor that the Company took into consideration was that net leases representing approximately 29% of the Company's annual rentals from its portfolio are with tenants in the retail sector, some of which are currently experiencing cash flow difficulties and restructurings. In addition, the Company noted that net operating cash flow in 1996 was approximately break even, after payment of approximately $34,600,000 of periodic principal payments and maturing debt obligations, including an $11.3 million principal payment made in May 1996 on its Senior Unsecured Debt, capital expenditures and the creation of cash reserves for its obligations. The Company further stated that it continues to believe that excess cash should be used to enhance long-term Unitholder value through investment in companies with assets undervalued by the market.

During the three months ended March 31, 1997, the Company generated approximately $9.8 million in cash flow from day-to-day operations.

Capital expenditures for real estate, were approximately $874,000 during the three months ended March 31, 1997.

In 1997 and 1998, the Company has approximately $11.3 million of principal payments due each year on its Senior Unsecured Debt and approximately $7.1 million and $3.5 million of maturing balloon mortgages due, respectively. During the three months ended March 31, 1997, approximately $3,025,000 of balloon mortgages were repaid out of the Company's cash flow. The Company may seek to refinance a portion of these maturing mortgages, although it does not expect to refinance all of them, and may repay them from cash flow and increase reserves from time to time, thereby reducing cash flow otherwise available for other uses.

During the three months ended March 31, 1997, net cash flow after payment of

maturing debt obligations and capital expenditures, and creation of cash reserves of approximately $5.9 million was approximately break even. The Company's operating cash reserves are approximately $30 million at March 31, 1997 (which does not include the cash from capital transactions that has increased primarily due to the sale of the RJR common stock which is being retained for investment), which are being retained to meet maturing debt obligations, capitalized expenditures for real estate and certain contingencies facing the Company. The Company from time to time may increase its cash reserves to meet its maturing debt obligations, tenant requirements and other capital expenditures and to guard against scheduled lease expirations and other contingencies including environmental matters.

The Company has significant maturing debt requirements under the Note Agreements. As of March 31, 1997, the Company has $22,615,552 of Senior Unsecured Debt outstanding. Pursuant to the Note Agreements, the Company is required to make semi-annual interest payments and annual principal payments.

The interest rate charged on the Senior Unsecured Debt is 9.6% per annum. Under the terms of the Note Agreements, the Company deferred and capitalized 2% annually of its interest payment through May 1993. In May 1994, 1995 and 1996, the Company repaid $10 million, $11.3 million and $11.3 million, respectively, of its outstanding Senior Unsecured Debt under the Note Agreements and principal payments of approximately $11,308,000 are due in 1997 and on the final payment date of May 27, 1998. As of March 31, 1997, the Company was in compliance with the terms of the Note Agreements.

The Note Agreements contain certain covenants restricting the activities of the Company. Under the Note Agreements, the Company must maintain a specified level of net annual rentals from unencumbered properties (as defined in the Note Agreements) and is restricted, in certain respects, in its ability to create liens and incur debts. Investment by the Company in certain types of assets that may be regarded as non-income producing, such as land or non-performing loans, is restricted under the Note Agreements. The holders of the Senior Unsecured Debt have agreed, however, to waive this restriction with

respect to any capital raised by the Company in the Rights Offering.

The Note Agreements contain certain prepayment penalties which the Company would be required to pay if it extinguishes any portion of the outstanding principal prior to its annual due date. The Note Agreements require that such prepayment consist of 100% of the principal amount to be prepaid plus a premium based on a formula described therein. As of April 29, 1997, the premium required in order to prepay the Note Agreement in full would have been approximately $929,000.

Sales proceeds from the sale or disposal of portfolio properties totaled approximately $10.9 million in the three months ended March 31, 1997. The

Company intends to use property sales, financing and refinancing proceeds for new investments. In addition, the Company successfully completed its Rights Offering in 1995 and net proceeds of approximately $107.6 million were raised for investment in undervalued assets including commercial properties, residential development projects, land parcels for the development of residential and commercial properties, non- performing loans and securities of entities which own, manage or develop significant real estate assets, including limited partnership units and securities issued by real estate investment trusts. To further its investment objectives, the Company may consider the acquisition of land development companies and other real estate operating companies which may have significant assets under development and may enhance its ability to develop and manage these properties as well as the ability to reduce costs and expenses related to such properties. The Amendment permits the Company to invest a portion of its funds in securities of issuers that are not primarily engaged in real estate. In 1996 the Company invested approximately $83 million in the common stock of RJR. In February 1997, the Company sold its entire interest in RJR for net proceeds of approximately $112 million and realized a gain of approximately $29 million.

PART II. Other information

Item 6. Exhibits and Reports on Form 8-K

(A) Financial Data Schedule is attached hereto as Exhibit EX-27

EXHIBIT INDEX

Exhibit	Description
EX-27	Financial Data Schedule

(B) A Form 8-K was filed on March 26, 1997 regarding the 1996 Earnings Press Release and that the Board of Directors announced that no distributions are expected to be made in 1997.

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.

American Real Estate Partners, L.P.

By: American Property Investors, Inc.

General Partner

____

John P. Saldarelli

Treasurer

(Principal Financial Officer

and Principal Accounting Officer)

Date: May 13, 1997

PAGE

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.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: American Property Investors, Inc.

General Partner

/s/ John P. Saldarelli

____

John P. Saldarelli

Treasurer

(Principal Financial Officer

and Principal Accounting Officer)

Date: May 13, 1997

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