SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 1995

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

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

DELAWARE	13-3398766
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
100 South Bedford Road, Mt. Kisco, New York	10549
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Depositary Units Representing Limited Partner Interests	New York Stock Exchange
5% Cumulative Pay-in-Kind Redeemable Preferred Units Representing Limited Partner Interests	New York Stock Exchange

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

None

Indicate by check mark whether AREP (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 and (2) has been subject to such filing requirements for the past 90 days.

YES X 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./X/

Based upon the closing price of Depositary Units on March 20, 1996, as reported

on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal), the aggregate market value of AREP's Depositary Units held by nonaffiliates of AREP as of such date was $112,493,536.

Based upon the closing price of Preferred Units on March 20, 1996, as reported on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal), the aggregate market value of AREP's Preferred Units held by nonaffiliates of AREP as of such date was $1,403,712.

Number of Depositary Units outstanding as of March 20, 1996: 25,666,640.
Number of Preferred Units outstanding as of March 20, 1996: 1,975,640.

PART I

Item 1. Business.

Introduction

American Real Estate Partners, L.P. ("AREP") was formed in Delaware on February 17, 1987. Pursuant to an exchange offer (the "Exchange Offer") which was consummated on July 1, 1987, AREP acquired the real estate and other assets, subject to the liabilities, of thirteen limited partnerships (the "Predecessor Partnerships"). The Predecessor Partnerships acquired such assets between 1972 and 1985. A registration statement on Form S-4 relating to the Exchange Offer (Registration No. 33-13943) was filed with the Securities and Exchange Commission (the "SEC") and declared effective May 18, 1987.

AREP's general partner is American Property Investors, Inc. (the "General Partner"), a Delaware corporation which is wholly owned by Carl C. Icahn ("Icahn"). The General Partner's principal business address is 100 South Bedford Road, Mt. Kisco, New York 10549, and its telephone number is (914) 242-7700. AREP's business is conducted through a subsidiary limited partnership, American Real Estate Holdings Limited Partnership (the "Subsidiary"), in which AREP owns a 99% limited partnership interest. The General Partner also acts as the general partner for the Subsidiary. The General Partner has a 1% general partnership interest in each of AREP and the Subsidiary. References to AREP herein include the Subsidiary, unless the context otherwise requires.

On March 30, 1995, AREP completed a rights offering (the "Rights Offering"), pursuant to which it raised approximately $107,600,000, net of related expenses. In addition, in connection therewith the General Partner contributed $2,206,242 in accordance with the terms of the Partnership's Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement"). Pursuant to the terms of the Rights Offering, holders of depositary units representing limited partner interests (the "Depositary Units") on the record date received one transferable subscription right (each a "Right") for each seven Depositary Units held. Each Right was exercisable for a combination of securities consisting of six Depositary Units and one 5% cumulative pay-in-kind redeemable preferred unit representing a limited partner interest (the "Preferred Units"). High Coast Limited Partnership, a Delaware limited partnership which is controlled by Icahn, acted as guarantor of the offering (the "Guarantor"). The Guarantor exercised certain subscription rights and an over-subscription privilege pursuant to which it acquired a total of 10,324,128 additional Depositary Units and 1,720,688 Preferred Units; as a result, the Rights Offering was fully subscribed. 1,975,640 Rights were issued in the offering, of which 418,307 were exercised. 190,554 Depositary Units and 31,759 Preferred Units were subscribed for through the exercise of the Over-Subscription Privilege by Rights Holders other than the Guarantor. As of March 20, 1996, Icahn, through the Guarantor, beneficially owned approximately 50.6% of the Depositary Units then outstanding and approximately 88.2% of the Preferred Units then outstanding, giving effect to the Rights Offering. A registration statement on Form S-3 relating to the Rights Offering (Registration No. 33-54767) was filed with the SEC and declared effective February 23, 1995. See "Business -- Rights Offering" and Item 12 -- "Security Ownership of Certain Beneficial Owners and Management."

Description of Business

AREP is in the business of acquiring and managing real estate and activities related thereto. Such acquisitions may be accomplished by purchasing assets outright or by acquiring securities of entities which hold significant real estate related assets. Historically, the properties owned by AREP have been primarily office, retail, industrial, residential and hotel properties. Most of the real estate assets currently owned by AREP were acquired from the Predecessor Partnerships and such assets generally are net-leased to single, corporate tenants. As of March 7, 1996, AREP owned 238 separate real estate assets primarily consisting of fee and leasehold interests in 35 states. As discussed below, AREP is seeking to make new investments to take advantage of investment opportunities it believes exist in the real estate market to further diversify its portfolio and to mitigate against lease expirations.

For each of the years ended December 31, 1995, 1994 and 1993, no single real estate asset or series of assets leased to the same lessee accounted for more than 10% of the gross revenues of AREP. However, at December 31, 1995, 1994 and 1993, Portland General Electric Company ("PGEC") occupied a property (the "PGEC Property") which represented more than 10% of AREP's total real estate assets. See Item 2 - "Properties."

Certain of AREP's investments may be owned by special purpose subsidiaries formed by AREP or by joint ventures (including joint ventures with affiliates of the General Partner) in which AREP, or AREP together with an affiliate, has a controlling interest. For example, AREP entered into two joint ventures with unaffiliated co-venturers in June 1994 for the purpose of developing two luxury garden apartment complexes. The first joint venture, formed as an Alabama limited liability company, developed a 240-unit multi-family project in Hoover, Alabama. The second joint venture, a Delaware limited partnership, is developing a 288-unit multi-family project in Cary, North Carolina.

In addition to holding real property, AREP may originate or purchase mortgage loans including non-performing mortgage loans. AREP will normally acquire non-performing mortgage loans with a view to acquiring title to or control over the underlying properties, and in 1993 it acquired two such loans on two residential apartment complexes located in Lexington, Kentucky. AREP foreclosed on one of these loans in 1993 and one in 1994 and now holds title to the underlying properties. AREP also may retain purchase money mortgages in connection with its sale of portfolio properties, with such terms as the General Partner deems appropriate at the time of sale.

Other real estate investment opportunities AREP may pursue include the purchase of undeveloped land for future residential and commercial development, investments in underperforming distressed properties, through outright purchase of the property or the purchase of the debt or other securities of the entity owning the property, and investments in securities of entities which own, manage or develop real estate, including limited partnership units and securities issued by real estate investment trusts.

All decisions with respect to the improvement, expansion, acquisition, disposition, development, management, financing or refinancing of properties or other investments are at the sole discretion of the General Partner.

Rights Offering

On March 30, 1995, AREP completed the Rights Offering through which it raised approximately $107,600,000, net of related expenses. Pursuant to the terms of the Rights Offering, holders of Depositary Units on the record date received one Right for each seven Depositary Units held. Each Right was exercisable for a combination of securities consisting of six Depositary Units and one Preferred Unit.

The Rights Offering enabled AREP to raise funds to increase its assets available for investment, thereby better positioning it to take further

advantage of investment opportunities in the real estate market, further diversify its portfolio and mitigate against the impact of lease expirations. Most of AREP's real estate assets are net-leased to single corporate tenants. By the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net leases representing approximately 40% of AREP's net annual rentals will be due for renewal. In many of these leases, the tenant has an option to renew at the same rents they are currently paying and in many of the leases the tenant also has an option to purchase. AREP believes that tenants acting in their best interests will renew those leases which are at below market rents, and permit leases for properties that are less marketable (either as a result of the condition of the property or its location) or are at above-market rents to expire. AREP expects 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 that AREP may be required to incur expenditures to renovate such properties for new tenants. AREP also 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. In addition, net leases representing approximately 30% of AREP's net annual rentals from its portfolio are with tenants in the retail sector, many of which are currently experiencing cash flow difficulties and a number of which are in bankruptcy. As a result, operating expenses may be incurred with respect to the properties underlying any such leases rejected in bankruptcy and those expenses, coupled with the effects of the downturn in the retail markets, could have an adverse impact on AREP's net cash flow. AREP is seeking to acquire new investments to mitigate against such a possibility and diversify its portfolio.

The General Partner believes that, because of overdevelopment in certain real estate markets and the desire of certain real estate holders (including financial institutions) to dispose of real estate assets, there are opportunities available to acquire new investments that are undervalued, including commercial properties, residential development projects, land parcels for future residential and commercial development, non-performing loans and the 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 investments may not be generating positive cash flow in the near term; however, the General Partner believes that in the

current market, investments 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. A substantial portion of the proceeds from the Rights Offering as well as AREP's available cash will be used to fund the acquisition of such properties and securities.

The General Partner believes that the acquisition by AREP of properties requiring some degree of management or development activity is consistent with AREP's historical investment objectives of reinvesting the proceeds of sales and refinancings in properties that offer greater growth potential and portfolio diversification. To further these investment objectives, AREP may consider the acquisition of real estate operating and development companies which will enhance its ability to develop and manage these properties as well as its ability to reduce the operating expenses related to such properties.

As of March 20, 1996, there were 25,666,640 Depositary Units and 1,975,640 Preferred Units outstanding. Trading in the Preferred Units commenced March 31, 1995 on the New York Stock Exchange, Inc. (the "NYSE") under the symbol "ACP PR." The Preferred Units represent limited partner interests in AREP and have certain rights and designations, generally as follows. Each Preferred Unit has a liquidation preference of $10.00 and entitles the holder thereof to receive distributions thereon, payable solely in additional Preferred Units, at the rate of $.50 per Preferred Unit per annum (which is equal to a rate of 5% of the liquidation preference thereof), payable annually on March 31 of each year (each, a "Payment Date"), commencing March 31, 1996. On any Payment Date commencing with the Payment Date on March 31, 2000, AREP, with the approval of the Audit Committee of the Board of Directors

of the General Partner (the "Audit Committee"), may opt to redeem all, but not less than all, of the Preferred Units for a price, payable either in all cash or by issuance of additional Depositary Units, equal to the liquidation preference of the Preferred Units, plus any accrued but unpaid distributions thereon. On March 31, 2010, AREP must redeem all, but not less than all, of the Preferred Units on the same terms as any optional redemption. Holders of Preferred Units will have no voting rights except as mentioned in Item 10 -- "Directors and Executive Officers of AREP," below.

Partnership Distributions

On December 4, 1995, AREP announced that no distribution would be made for the fourth quarter of 1995 and that no distributions on its Depositary Units are expected to be made in 1996. No distributions were made in 1994 or 1995. In making its announcement, AREP noted that it intends to continue to apply available cash flow toward its operations, repayment of maturing indebtedness, tenant requirements and other capital expenditures and creation of cash reserves for contingencies facing AREP, including environmental matters and scheduled lease expirations. As previously reported, by the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, 40% of such rentals will be due for renewal. In making its decision to curtail distributions on its Depositary Units, AREP also considered the number of properties that are leased to retail tenants (approximately 30% of AREP's net annual rentals from its portfolio) some of which are experiencing cash flow difficulties and restructurings. See

Item 5 -- "Market for AREP's Common Equity and Related Security Holder Matters - -- Distributions" and Item 7 -- "Management's Discussion and Analysis of the Financial Condition and Results of Operations -- Capital Resources and Liquidity."

Pursuant to the terms of the Preferred Units, on April 1, 1996, AREP will distribute to holders of record of Preferred Units as of March 15, 1996, additional Preferred Units at the rate of $.50 per Preferred Unit (which is equal to a rate of 5% of the liquidation preference thereof). The total number of additional Preferred Units anticipated to be distributed by AREP on April 1, 1996 is approximately 98,782.

Recent Acquisitions

On May 18, 1995, AREP purchased approximately 248 acres of partially improved land located in Armonk, New York. The purchase price was approximately $3,044,000. AREP intends to construct approximately 45 to 50 single-family detached luxury homes, subject to subdivision and other required approvals. No material development costs have yet been incurred. A reinvestment incentive fee of approximately $15,000 may be due to the General Partner in respect of this purchase.

On August 15, 1995, AREP invested approximately $7,100,000 in a note receivable by purchasing a portion (approximately 1.85%) of an unsecured senior term facility agreement (the "Facility Agreement"). The borrower is Queens Moat Houses, P.L.C. ("Queens Moat"), and certain subsidiaries. Queens Moat is a United Kingdom-based hotel operator with properties in the United Kingdom, Germany, the Netherlands, France and Belgium. AREP purchased its participation portion from Lazard Freres & Co. LLC, defined as a Priority Lender in the Facility Agreement, at 71.75% of the face amount of AREP's pro rata portion of the Facility Agreement's outstanding senior advances on the acquisition date. The Facility Agreement's advances are denominated in Pounds Sterling, Deutsche Marks, Dutch Guilders, Belgian Francs and French Francs. The discount at the acquisition date, based on the then existing spot rate, was approximately $2,800,000. The Facility Agreement matures December 31, 2000 and bears interest at the London Interbank Offered Rate plus 1.75% per annum for the relevant currencies. Interest will accrue from July 1, 1995 to June 30, 1996, which interest will then be due and payable to AREP. Subsequent to June 30, 1996, interest periods and payments can vary from one month to two, three or

six months, at the discretion of the borrower. There are scheduled repayments of the advances over the term of the loan. In addition, repayments are required when certain underlying assets are sold. As of March 7, 1996, principal repayments totalled approximately $126,000.

The discount at the acquisition date will be amortized on a straight-line basis over the term of the Facility Agreement. In accordance with accounting policy, foreign exchange gains and losses will be recorded each quarter based on the prevailing exchange rates at each balance sheet date. Foreign exchange gains of approximately $158,000 have been recognized during the twelve months ended December 31, 1995.

In June 1994, AREP entered into two joint ventures with unaffiliated co-venturers for the purpose of developing luxury garden apartment complexes. Both of these joint ventures have been consolidated in the accompanying financial statements.

The first joint venture, formed as an Alabama limited liability company, developed a 240-unit multi-family project situated on approximately twenty acres currently owned by the joint venture, located in Hoover, Alabama, a suburb of Birmingham. AREP, which owns a seventy percent (70%) majority interest in the joint venture, contributed $1,750,000 in June 1994, and the co-venturer contributed $250,000. Distributions will be made in proportion to ownership interests. The co-venturer will be credited with $500,000 of additional capital in lieu of receiving a general contractor's fee. Permanent financing has been obtained by the joint venture in the amount of $8,860,000 of which $360,000 is guaranteed by the co-venturer and personally by its principals. AREP funded approximately $140,000 of $200,000 of approved additional improvements with the co-venturer funding the balance in 1995. The complex was completed in September 1995 and all rental units are available for occupancy. As of February 1996, approximately 83% of the units were leased. The development costs totalled approximately $10,889,000, including the acquisition of land valued at approximately $1,138,000. An affiliate of AREP's co-venturer is managing the property. For the year ended December 31, 1995, net rental operations resulted in a loss of approximately $301,000, including approximately $289,000 of depreciation and amortization, before consideration of the co-venturer's minority interest in such loss of approximately $90,000. A reinvestment incentive fee of approximately $38,000 is due to the General Partner.

The second joint venture, formed as a Delaware limited partnership, is developing a 288-unit multi-family project situated on approximately thirty-three acres in Cary, North Carolina (Raleigh-Durham area). AREP, which owns a ninety percent (90%) majority interest in the partnership, has contributed approximately $4,022,000 as of December 31, 1995 and is a limited partner. The co-venturer is the general partner and also has a limited partner interest. AREP is entitled to a cumulative annual preferred return of 12% on its investment before cash distributions are made in proportion to ownership interests. AREP made its final contribution which totalled approximately $278,000 in January 1995. Construction financing has been obtained by the joint venture in the amount of $12,205,000 and is guaranteed by the joint venture general partner and personally by its principals. The development costs are expected to total approximately $16,100,000. As of December 31, 1995, approximately $12,216,000 of development costs have been incurred of which approximately $6,988,000 represents completed rental units, including the acquisition of land valued at $1,600,000. Construction loan funding at December 31, 1995 was approximately $7,834,000. The first units became available for occupancy in October 1995 and project completion is scheduled for July 1996. As of March 1996, approximately 29% of the rental units were leased. An affiliate of AREP's co-venturer is managing the property. For the year ended December 31, 1995, net rental operations resulted in a loss of approximately $115,000 including approximately $87,000 of depreciation and amortization. A reinvestment incentive fee of approximately $70,000 is due to the General Partner upon completion of the project.

Investment Opportunities and Strategies

In selecting future investments, AREP intends to focus on assets that it believes are undervalued in the real estate market, which investments may require substantial liquidity to maintain a competitive advantage. Such investments may include commercial properties, residential development projects, land parcels for future residential and commercial development, 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, which in each case the General Partner believes have the potential to diversify and enhance the long-term value of AREP's portfolio. AREP also may acquire real estate operating and development companies which would enhance its ability to develop and manage properties it acquires as well as its ability to reduce the operating expenses related to investments which require active management. The cash flow generated by an asset will be a consideration, but AREP may acquire assets that are not generating positive cash flow. While this may impact cash flow in the near term and there can be no assurance that any asset acquired by AREP will increase in value or generate positive cash flow, management intends to focus on assets that it believes may provide opportunities for long-term growth and diversification of its portfolio. Investment by the Partnership in certain types of assets that may be regarded as non-income producing, such as land and non-performing loans, is currently restricted under AREP's $50 million senior unsecured debt financing (the "Senior Unsecured Debt"). The holders of the Senior Unsecured Debt have agreed, however, to waive this restriction with respect to additional capital raised by AREP in the Rights Offering. The Partnership may, subject to negotiating terms favorable to the Partnership, prepay in full the Senior Unsecured Debt with a portion of the proceeds from the Rights Offering. To date, the Partnership has been unable to negotiate favorable terms for such prepayment.

Management will seek to identify and evaluate opportunities that could permit an investment to be made on favorable terms. For example, management believes that such attractive investment opportunities will be available in the context of assets held or controlled by persons who do not intend to hold such assets for long-term investment (such as assets of failed financial institutions sold in connection with their interim management by federal or state regulators and similar assets which management believes will be available from insurance companies or financial institutions under regulatory pressure to sell). AREP will also consider investments in properties encumbered by indebtedness that are in default, are not performing or are believed by management to be likely to be subject to future default, and properties performing at a level believed by management to be substantially below their potential, due to identifiable management weaknesses or temporary market conditions such as oversupply of comparable space or stagnant or recessionary local or regional economies.

Other real estate investment opportunities AREP may pursue include investments in joint venture arrangements with developers for the purpose of developing single family homes, luxury garden apartments and shopping centers and the acquisition of underperforming distressed properties through outright purchase or the purchase of the debt or securities of such entities. For example, AREP may elect to establish an ownership position by first acquiring debt secured by targeted assets and then negotiating for the ownership of some or all of the underlying equity in such assets as evidenced by its acquisition of the properties in Lexington,

Kentucky which were purchased at substantial discounts through the acquisition of the mortgages secured by these properties. See "Financing Activities" below and Notes 6, 7 and 8 to the Financial Statements contained herein. AREP also may seek to establish a favorable economic and negotiating position through the acquisition of other rights or interests that provide it with leverage in negotiating the acquisition of targeted assets. AREP also will seek to acquire assets that are not in financial distress but which, due to the particular

circumstances of their ownership, use or location, present substantial opportunities for development or long-term growth.

While AREP believes opportunistic real estate acquisitions continue to remain available for companies like AREP, such acquisition opportunities for value-added investors are becoming 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 sought by AREP.

Financing Activities

During 1995, AREP had approximately $3,633,000 in maturing balloon mortgages due, all of which have been repaid. Approximately $19,000,000 and $5,500,000 are due in 1996 and 1997, respectively. During the period 1998 through 1999 approximately $12,000,000 in balloon mortgages will come due. AREP will seek to refinance a portion of these maturing mortgages, although it does not expect to be able to refinance all of them and may be required to repay them from cash flow and reserves created from time to time, thereby reducing cash flow otherwise available for other uses. See Note 8 to the Financial Statements contained herein.

AREP also has significant maturing debt requirements under its two unsecured note agreements (the "Note Agreements") that it entered into in May 1988. Under the Note Agreements, AREP is required to make semi-annual interest payments and annual principal payments. In May 1994 and 1995, AREP repaid $10,000,000 and $11,308,000, respectively, of the outstanding principal balance under the Note Agreements. Prior to 1994, AREP was not required to pay principal under the Note Agreements. Principal payments of approximately $11,308,000 are due under such agreements annually from 1996 through 1998. See Note 9 to the Financial Statements contained herein. Subject to negotiating terms favorable to AREP, the Senior Unsecured Debt may be prepaid in full with a portion of the proceeds from the Rights Offering. To date, the Partnership has been unable to negotiate favorable terms for such prepayment. See Item 2 -- "Properties."

A balloon payment of approximately $6,266,000 was originally due June 1, 1994 on a nonrecourse mortgage which encumbered the Holiday Inn in Phoenix, Arizona; however, AREP paid off approximately $2,966,000 on that date and subsequently refinanced the remaining balance with a nonrecourse mortgage loan in the amount of $3,300,000. See Note 8 to the Financial Statements contained herein.

On July 25, 1994 AREP obtained financing on the two apartment complexes located in Lexington, Kentucky. The two nonrecourse mortgage loans are in the amount of $5,500,000 and $4,500,000, respectively. See Note 8 to the Financial Statements contained herein. Under

the terms of the loans, $100,000 was initially funded on each loan, with the balance funded on January 19, 1995.

Leasing Activities

In 1995, seventeen leases covering twenty-six properties and representing approximately $996,000 in annual rentals expired. Sixteen of these twenty-six properties' leases, originally representing approximately $653,000 in annual rental income, were re-let or renewed for approximately $662,000 in annual rentals. Three properties with an approximate annual rental income of $137,000 are currently being marketed for sale or lease. Seven properties with an approximate annual rental income of $206,000 were sold in 1995.

In 1996, 22 leases covering 22 properties and representing approximately $2,413,000 in annual rentals are scheduled to expire. Seven of these 22 leases, originally representing approximately $1,102,000 in annual rental income have been or will be re-let or renewed for approximately $1,109,000 in annual rentals. Such renewals are generally for a term of five

years. Six leases with an approximate annual rental income of $822,000 will be marketed for sale or lease when the current lease terms expire. Tenants occupying two of the properties with approximate annual rental income of $358,000 have elected to exercise their purchase options and the renewal status of the remaining seven properties representing approximately $131,000 in annual rental income is uncertain as of the date hereof.

By the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net leases representing approximately 40% of AREP's net annual rentals will be due for renewal. See "Business -- Rights Offering" above.

Bankruptcies and Defaults

AREP is aware that 14 of its present and former tenants have been or are currently involved in some type of bankruptcy or reorganization. Under the Federal Bankruptcy Code (the "Bankruptcy Code"), a tenant may assume or reject its unexpired lease. In the event a tenant rejects its lease, the Bankruptcy Code limits the amount of damages a landlord, such as AREP, is permitted to claim in the bankruptcy proceeding as a result of the lease termination. Generally, a claim resulting from a rejection of an unexpired lease is a general unsecured claim. When a tenant rejects a lease, there can be no assurance that AREP will be able to re-let the property at an equivalent rental. As a result of tenant bankruptcies, AREP has incurred and expects -- at least in the near term -- to continue to incur certain property expenses and other related costs. Thus far, these costs have consisted largely of legal fees, real estate taxes and property operating expenses. Of AREP's 14 present and former tenants involved in bankruptcy proceedings or reorganization, nine have rejected their leases, affecting 28 properties, all of which have been vacated. These rejections have had an adverse impact on annual net cash flow (including both the decrease in revenues from lost rents, as well as increased operating expenses). In addition, a number of AREP's properties are leased to retail chains, some of

which are currently experiencing cash flow difficulties or restructurings, and three of which are in bankruptcy as discussed below. A continued downturn in the retail market affecting AREP's tenants could have an adverse impact on AREP's annual net cash flow.

The three most significant bankruptcies which affected AREP in 1995 involved Bradlees Stores, Inc. ("Bradlees"), Caldor Corp. ("Caldor") and Grand Union Company ("Grand Union"). On September 18, 1995, Caldor, a tenant in a property owned by AREP, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the 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 prepetition rent. 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. At December 31, 1995, the property had a carrying value of approximately $2,005,000 and was unencumbered by any mortgage.

On June 23, 1995, Bradlees, a tenant leasing four properties owned by AREP, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the 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 December 31, 1995, the carrying value of these four properties was approximately $7,537,000. Two of the properties are encumbered by nonrecourse mortgages payable of approximately $2,031,000.

On January 25, 1995, Grand Union, a tenant leasing eight of AREP's properties representing approximately $1,450,000 in annual rentals (including two properties which are sublet, representing approximately $58,000 in annual

rentals), filed a prepackaged voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code. The tenant rejected the lease on one property located in Waterford, New York effective July 31, 1995 by order of the Bankruptcy Court on June 6, 1995. The annual rent for this property was approximately $103,000. AREP is now actively marketing this property for sale and believes the property's carrying value of $1,057,149 at December 31, 1995 exceeds its estimated net realizable value by $157,149, for which a provision for loss on real estate was recorded in the year then ended. The property is unencumbered by any mortgage.

In June 1995, Grand Union emerged from bankruptcy and affirmed five of the seven remaining leases and allowed the two sublet properties' leases to remain in effect. At December 31, 1995, the carrying value of these seven properties is approximately $11,203,000. One of these properties is encumbered by a nonrecourse mortgage payable of approximately $4,672,000. AREP has filed a proof of claim with the Bankruptcy Court for the rejected lease. See Note 14 to the Financial Statements contained herein.

In August 1993, AREP reached a settlement of its bankruptcy claim against Days Inn of America (now known as Buckhead America Corporation ("Buckhead")). On September 27, 1991, the debtor filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code and rejected its lease effective July 31, 1992. In August

1993, AREP reached a settlement of its claim against Buckhead. Pursuant to the settlement, AREP received approximately $104,000, $184,000 and $730,000 in cash in the years ended December 31, 1995, 1994 and 1993, respectively and stock in Buckhead valued at approximately $28,000 and $305,000 was received in the years ended December 31, 1995 and 1993, respectively. These amounts of approximately $132,000, $184,000 and $1,035,000 were recognized as "other income" in the years ended December 31, 1995, 1994 and 1993, respectively. See Note 7 to the Financial Statements contained herein. AREP engaged a management company to perform on-site and supervisory management services for the former Buckhead's property. Management estimates that AREP will incur costs of approximately $2,600,000 over the next three years, as leases are executed, to renovate, build-out and re-lease the property. Buckhead's rejection of the lease adversely impacted AREP's cash flow by approximately $110,000 per month.

On July 31, 1992, Chipwich, Inc. ("Chipwich"), parent company of Peltz Food Corporation, a tenant in a property owned by AREP, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code. Chipwich then filed a motion for rejection of the lease, and, pursuant to an order of the Bankruptcy Court, the lease was rejected on September 29, 1992. In September 1995 AREP agreed to settle certain claims against Pechiney Packaging Corporation ("Pechiney"), Nelson Peltz ("Peltz") and Peter W. May ("May") as guarantors (Pechiney, Peltz and May, collectively, the "Guarantors") of the lease. Under the terms of the settlement agreement, the Guarantors paid AREP $2,200,000 in full satisfaction of their leasehold obligation, which, net of related costs, resulted in approximately $2,034,000 of "Other income" for the fiscal year ended December 31, 1995. AREP reclassified this property as "Property held for sale" and reduced its carrying value to net realizable value by recording a provision for loss of $611,552 for the fiscal year ended December 31, 1995.

For a description of certain other tenant and mortgagor bankruptcies affecting AREP, please refer to Notes 7, 14 and 18 to the Financial Statements contained herein. The General Partner monitors all tenant bankruptcies and defaults and may, when it deems it necessary or appropriate, establish additional reserves for such contingencies.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on or in its property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the release of

such hazardous substances. If any such substances were found in or on any property invested in by AREP, AREP could be exposed to liability and be required to incur substantial remediation costs. The presence of such substances or the failure to undertake proper remediation may adversely affect the ability to finance, refinance or dispose of such property. AREP will generally require that properties in which AREP invests have been subject to a Phase I environmental audit, which involves record review, visual site assessment and personnel interviews, but does not involve invasive procedures such as soil sampling or groundwater analysis. There can be no assurance, however, that these audits will reveal all potential

liabilities or that future uses or conditions or changes in applicable environmental laws and regulations will not result in the creation of environmental liabilities with respect to a property.

Most of AREP's properties continue to be net-leased to single corporate tenants, and AREP believes these tenants would be responsible for any environmental conditions existing on the properties they lease. Normally, therefore, such conditions should not have a material adverse effect on the financial statements or competitive position of AREP. Many of the properties acquired by AREP in connection with the Exchange Offer were not subjected to any type of environmental site assessment at the time of the acquisition. Consequently, AREP undertook to have certain properties (approximately 110) in its portfolio, which were not inspected at the time of acquisition, subjected to Phase I Environmental Site Assessment by third-party consultants. AREP believes that under the terms of its net leases with its tenants, the costs of any environmental problems that may be discovered on these properties generally would be the responsibility of such tenants. However, while most tenants have assumed responsibility for the environmental conditions existing on their leased property, there can be no assurance that AREP would not be deemed to be a responsible party or that the tenant could bear the costs of remediation.

The Phase I Environmental Assessments received on these properties inconclusively indicate that certain sites may have environmental conditions that should be further reviewed. Based on the results of these Phase I Environmental Site Assessments, the environmental consultant has recommended that limited Phase II Environmental Site Investigations be conducted for approximately 28 of the sites that are still owned by AREP in order to ascertain whether there are any environmental conditions and the anticipated cost of any remediation. AREP has notified the tenants at the 28 sites and is seeking to coordinate with the tenants to attempt to ensure that they cause any required remediation to be performed. It is possible that, in some instances, the tenant will either refuse to take appropriate action, or fail to respond at all, in which case AREP may be required to act. Therefor, in addition to AREP's possible exposure with respect to the Lockheed property described below, if the tenants fail to perform responsibilities under their leases in respect of such sites, based solely upon the consultant's preliminary estimates resulting from its Phase I Environmental Site Assessments referred to above, it is presently estimated that AREP's exposure could amount to $3-4 million. However, as no Phase II Environmental Site Investigations have been conducted by the consultant, there can be no accurate estimation of the need for or extent of any required remediation. In addition, AREP is planning Phase I Environmental Site Assessments for approximately 100 more net-leased properties during 1996 and 1997. Phase I Environmental Assessments will also be performed in connection with new acquisitions and with such property refinancings as AREP may deem necessary and appropriate.

In addition to conducting such Phase I Environmental Site Assessments, AREP has developed a site inspection program. This program is being conducted by two in-house employees (both of which are experienced construction managers and registered architects) who visit AREP's properties and visually inspect the premises to assess the physical condition of the properties in an effort to determine whether there are any indications of environmental conditions which would potentially expose AREP to liability and to ensure that the property is being

maintained properly. There is no assurance, however, that this program will in fact minimize any potential environmental or other cost exposure to AREP.

AREP could also become liable for environmental clean-up costs if a bankrupt or insolvent tenant were unable to pay such costs. Environmental problems may also delay or impair AREP's ability to sell, refinance or re-lease particular properties, resulting in decreased income and increased cost to AREP.

Lockheed Missile & Space Company ("Lockheed"), a tenant of AREP's leasehold property in Palo Alto, California, has entered into a consent decree to undertake certain environmental remediation at this property. Although Lockheed was found responsible for approximately 75% of the costs of such remediation and AREP was allocated no responsibility for any such costs, Lockheed has indicated that it may exercise its statutory right to have its liability reassessed in a binding arbitration proceeding. In April 1995 Lockheed began ground water remediation at the leasehold property. See Item 2 - -- "Properties - Environmental Litigation," Item 3 -- "Legal Proceedings" and Note 14 to the Financial Statements contained herein.

Other Property Matters

Under Title III of the Americans with Disabilities Act of 1990 and the rules promulgated thereunder (collectively, the "ADA"), in order to protect individuals with disabilities, owners and certain tenants of public accommodations (such as hotels, restaurants, offices and shopping centers) must remove architectural and communication barriers which are structural in nature from existing places of public accommodation to the extent "readily achievable" (as defined in the ADA). In addition, under the ADA, alterations to a place of public accommodation or a commercial facility are to be made so that, to the maximum extent feasible, such altered portions are readily accessible to and usable by disabled individuals.

Except for certain properties operated by AREP, the General Partner believes that the existing net leases require the tenants of the majority of AREP's properties to comply with the ADA. If a tenant does not comply with the ADA or rejects its lease in bankruptcy without complying with the ADA, AREP may ultimately have to bear the expense of complying with the ADA. The General Partner is aware of one pending complaint alleging failure to comply with the ADA in connection with a property that is net-leased to Gino's of Pennsylvania, Inc. The General Partner notified the tenant that it is obligated to bear the expense of such compliance and the tenant has notified AREP that all required action has been taken.

As AREP acquires more operating properties, it may be required to make expenditures to bring such properties into compliance with the ADA and other applicable laws.

Employees

Seventeen people, including three who are officers of the General Partner, presently perform services for AREP on a full-time basis. These people perform administrative services for AREP, including accounting, legal, financial, investor services, secretarial, real estate management and other services. Management believes it currently has sufficient staffing to operate effectively the day-to-day business of AREP.

Competition

Competition in the real estate industry remains strong as current economic and real estate conditions have made it more difficult to re-let upon

favorable terms properties vacated by tenants whose leases have expired or who have rejected their leases in bankruptcy. The real estate market continues to be weak in certain areas of the country, particularly in the retail category. The downturn in the retail markets and ongoing corporate consolidations have contributed to increasing vacancy rates and oversupply for retail tenants. This has intensified the existing competition among landlords for creditworthy tenants and resulted in making it more difficult to lease space at rates equal to or greater than the rates payable by former tenants. While certain real estate markets have begun to stabilize, as evidenced by decreasing vacancy levels, the commercial real estate market in general may continue to suffer from oversupply and competition to attract tenants will remain intense. This intense competition may in turn lead to stagnating or decreasing rents. In addition, it also is anticipated that any rental property owned by AREP (whether retail, residential, office or industrial) will have substantial competition from similar properties in the vicinity in which it is located. However, the value of certain quality net-leased properties in AREP's portfolio appears to be withstanding such pressures somewhat better than other types of real estate properties. AREP believes it is one of the largest real estate entities of its kind and that it will continue to compete effectively with other similar real estate companies, although there are real estate entities with greater financial resources than AREP.

Competition for investments of the type AREP intends to pursue has been increasing in recent years, resulting in, among other things, higher prices for such investments. While AREP believes its capital base may enable it to gain a competitive advantage over certain other purchasers of real estate by allowing it to respond quickly and make all cash transactions without financing contingencies where appropriate, there can be no assurance that this will be the case. In addition, acquisition opportunities for value-added investors are becoming 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 sought by AREP.

Item 2. Properties.

As of March 7, 1996, AREP owned 238 separate real estate assets (primarily consisting of fee and leasehold interests and, to a limited extent, interests in real estate mortgages) in 35 states. These properties are generally net-leased to single corporate tenants. Approximately

97% of AREP's properties are currently net-leased. See Note 8 to the Financial Statements contained herein for information on mortgages payable.

The following table summarizes the type, number per type and average net effective rent per square foot of AREP's properties:

Type of Property	Number of Properties	Average Net Effective Rent Per Square Foot
Retail	112	$4.06(1)
Industrial	23	$2.37(1)
Office	33	$7.41(1)
Supermarkets	21	$3.36(1)
Banks	8	$5.13(1)
Other:		
Properties That Collateralize Purchase Money Mortgages	12	N/A
Land	17	N/A
Truck Terminals	4	$1.69(1)
Hotels	4	N/A
Apartment Complexes	4	N/A

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(1) Based on net-lease rentals.

The following table summarizes the number of AREP's properties in each region specified below:

Location of Property	Number of Properties
United States:	
Southeast	100
Northeast	54
South Central	11
Southwest	20
North Central	45
Northwest	8

From January 1, 1995 through March 7, 1996, AREP sold or otherwise disposed of 15 properties. In connection with such sales and dispositions, AREP received an aggregate of approximately $21,000,000 in cash, net of amounts utilized to satisfy mortgage indebtedness which encumbered such properties. As of December 31, 1995, AREP owned seven properties that were being actively marketed for sale. The aggregate net realizable value of such properties is estimated to be approximately $1,983,000.

On February 1, 1995, the Penske Corp. exercised its purchase option on three properties leased from AREP, two located in New Jersey and one located in New York. The selling price was approximately $4,535,000 and a gain of approximately $1,003,000 was recognized in the year ended December 31, 1995. Each property was encumbered by first and second mortgages which totalled approximately $1,152,000 and which were paid from the sales proceeds.

On March 24, 1995, AREP sold a property located in Taylor, Michigan which is tenanted by Pace Membership Warehouse, Inc. The sales price was $9,300,000 and a gain of approximately $3,307,000 was recognized in the year ended December 31, 1995. The property was encumbered by a nonrecourse mortgage payable of approximately $4,346,000, which the purchaser assumed.

On May 18, 1995, AREP purchased approximately 248 acres of partially improved land located in Armonk, New York. The purchase price was approximately $3,044,000. AREP intends to construct approximately 45 to 50 single-family detached luxury homes subject to subdivision and other required approvals. No material development costs have yet been incurred.

On June 28, 1995, General Signal Technology Corporation, a tenant of a property located in Andover, Massachusetts, exercised its rights under the lease to purchase the property. The selling price was approximately $19,808,000, and a loss of approximately $125,000 was recognized in the year ended December 31, 1995. The property was encumbered by two nonrecourse mortgages payable, which totalled approximately $10,670,000 and were paid from the sales proceeds.

For each of the years ended December 31, 1995, 1994 and 1993, no single real estate asset or series of assets leased to the same lessee accounted for more than 10% of the gross revenues of AREP. However, at December 31, 1995, 1994 and 1993, PGEC occupied a property, which represented more than 10% of AREP's total real estate assets. PGEC is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity, whose shares are traded on the NYSE.

The PGEC Property is an office complex consisting of three buildings containing an aggregate of approximately 803,000 square feet on an approximate 2.7 acre parcel of land located in Portland, Oregon. A Predecessor Partnership originally purchased the PGEC Property on September 11, 1978 for a price of approximately $57,143,000.

The PGEC Property is subject to two underlying mortgages, which in the aggregate as of December 31, 1995, had an outstanding principal balance of $35,534,172. The first mortgage bears interest at 8.5% per annum, provides for aggregate annual debt service of $2,856,960 and matures on October 1, 2002, at which time a balloon payment of $19,304,091 will be due and payable. By its terms, this mortgage is prepayable at any time subject to certain restrictions. The second mortgage bears interest at 10% per annum, provides for interest-only payments during its term (an aggregate of $1,000,000 per annum) and matures in October 1996, at which time a balloon payment of $10,000,000 will be due and payable. By its terms, this second

mortgage was not prepayable until September 1989, and then only with a 6% penalty, which penalty decreases by .5% each year thereafter.

The PGEC Property is net-leased to a wholly owned subsidiary of PGEC for forty years, with two ten-year and one five-year renewal options. The annual rental is $5,137,309 until 2003, $4,973,098 until 2018 and $2,486,549 during each renewal option. PGEC has guaranteed the performance of its subsidiary's obligations under the lease. The lessee has an option to purchase the PGEC Property in September of 2003, 2008, 2013 and 2018 at a price equal to the fair market value of the PGEC Property determined in accordance with the lease and is required to make a rejectable offer to purchase the PGEC Property in September 2018 for a price of $15,000,000. A rejection of such offer will have no effect on the lease obligations or the renewal and purchase options.

In June 1994, AREP entered into two joint ventures with unaffiliated co-venturers for the purpose of developing luxury garden apartment complexes. See Item 1 -- "Business -- Recent Acquisitions" above.

AREP's most significant acquisition in 1993 was the purchase of two non-performing mortgage loans for a combined price of $13,000,000. AREP foreclosed on these loans in 1993 and 1994, and now holds title to the underlying properties. On July 25, 1994, AREP obtained financing on these two properties. See Item 1 -- "Business -- Financing Activities."

AREP is continuing to seek opportunities to refinance upon favorable terms and sell certain of its properties to generate proceeds for future investments, in addition to the proceeds from the Rights Offering. In the current real estate environment, management continues to seek to improve the long-term value of AREP's portfolio by, among other means, using its available cash and reinvesting capital transaction proceeds to maximize capital appreciation and diversification of the portfolio. AREP believes that the continuing weakness in the real estate market presents opportunities to acquire significantly undervalued properties, 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, which will enhance AREP's portfolio and its return on investments. In selecting investments, AREP intends to focus on assets that it believes are undervalued in the current real estate market, such as development properties, non-performing loans and securities of companies with significant real estate assets, which the General Partner believes have the potential to diversify and enhance the long-term value of AREP's portfolio. AREP also may acquire real estate operating and development companies which may enhance its ability to develop and manage properties it acquires as well as its ability to reduce the operating expenses related to investments which require active management. The cash flow generated by an asset will be a consideration, but AREP may acquire assets that are not generating positive cash flow. While this may impact cash flow in the near term and there can be no assurance that any asset acquired by AREP will increase in value or generate positive cash flow, management intends to focus on assets that it believes may provide opportunities for long-term growth and diversification of its portfolio.

Item 3. Legal Proceedings.

Unitholder Litigation

In August 1994, three class action complaints against AREP were filed with the Delaware Court of Chancery, New Castle County, in connection with the Rights Offering, Allan Haymes, I.R.A. v. American Real Estate Partners, L.P., American Property Investors, Inc. and Carl C. Icahn and Steven Yavers v. American Real Estate Partners, L.P., American Property Investors, Inc. and Carl C. Icahn and Wilbert Schoomer v. American Real Estate Partners, L.P., American Property Investors, Inc. and Carl C. Icahn (the "Complaints"). The Complaints were consolidated. The Complaints claimed defendants breached fiduciary and common law duties owed to plaintiffs and plaintiffs' class by self dealing and failing to disclose all relevant facts regarding the Rights Offering, and sought declaratory and injunctive relief declaring the action was properly maintainable as a class action, declaring the defendants breached their fiduciary and other duties, enjoining the Rights Offering, ordering defendants to account for all damages suffered by the class for alleged acts and transactions and awarding further relief as the court deemed appropriate. On April 7, 1995, defendants moved to dismiss the consolidated complaint as moot. Only July 28, 1995, the parties submitted a stipulation of dismissal agreeing to dismiss the action as moot. The plaintiffs have reserved their right to make application to the Court for fees and expenses. On August 3, 1995, the Court signed an order dismissing the plaintiffs' claims with prejudice as moot. The Court retained jurisdiction with respect to any application filed by the plaintiffs for fees and expenses.

Defaulted Mortgage Receivable

As of December 31, 1995, AREP held a mortgage note receivable in the principal amount of approximately $97,000 which is in default. The mortgage encumbers one property together with a collateral assignment of ground lease and rent. The property is tenanted by Gino's. The mortgage had been taken back by a Predecessor Partnership in connection with the sale of this property. The tenant remained current in its lease obligations. See Note 14 to the Financial Statements contained herein.

Property Litigation

Simultaneously with the acquisition of property in East Syracuse, New York, AREP entered into a general construction contract (the "GC Agreement") pursuant to which the seller was required to construct the property for a guaranteed maximum amount of $2,327,802. However, the construction of the BJ's Warehouse Store was subject to delays and the seller did not meet all of its construction obligations under the GC Agreement and failed to cure such defaults. AREP sent a notice, dated February 19, 1993, terminating the GC Agreement. AREP contacted the surety of the GC Agreement to make a claim pursuant to the terms of the surety bond but was unsuccessful. AREP has determined at this point that it will not pursue any potential claims that it may have against the surety, because after due inquiry, it believes that such claims will not be able to be satisfied. Additionally, in connection with certain alleged

agreements between related entities and principals of the seller, and a brokerage company, the broker filed an action for a commission in the amount of $250,000 plus additional damages of $500,000. AREP served an answer denying any liability and served a cross-claim on the seller and its principals, based upon representations in the contract of sale that no commissions were due to this broker. AREP did not agree to assume the obligation to pay such commission and is defending such action; discovery is proceeding in the matter. Furthermore, another broker has instituted an action against AREP and certain other co-defendants regarding a $224,500 brokerage claim with respect to such

property, as well as punitive damages of $1,000,000; this action was settled in January 1995 with dismissal of the action with prejudice and with a reservation of AREP's rights against its co-defendants.

Environmental Litigation

On September 16, 1991, AREP brought suit against Alco Standard Corporation and its affiliates, a former tenant of an industrial facility located in Rome, Georgia whose lease expired in October 1990. The action was brought against the defendants in the United States District Court for the Northern District of Georgia, Rome Division, for reimbursement of costs that could be incurred for clean-up of hazardous materials on the site and certain deferred maintenance. In July 1994, this litigation was settled and the property was sold for $525,000. A gain of approximately $100,000 was recognized in the year ended December 31, 1994. In addition, Alco reimbursed AREP for $150,000 of expenses incurred and indemnified AREP against any future liability in connection with any site contamination.

Lockheed, a tenant of AREP's leasehold property in Palo Alto, California, has entered into a consent decree with the California Department of Toxic Substances ("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 CDTS, Lockheed was found responsible for approximately 75% of such costs and the balance was allocated to other parties. AREP 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 this notice of arbitration, Lockheed stated that it will attempt to have allocated to AREP and to AREP's ground-lessor (which may claim a right of indemnity against AREP) approximately 9% and 17%, respectively, of the total remediation costs. AREP believes that it has no liability for any of such costs and, in any proceeding in which such liability is asserted against AREP, AREP intends to contest such liability vigorously. In the event any of such liability is allocated to AREP, AREP intends to seek indemnification for any such liability from Lockheed in accordance with its lease. In April 1995 Lockheed began ground water remediation at the leasehold property.

On December 11, 1995, Panos Sklavenitis commenced an action against the Subsidiary and others related to a shopping center that he purchased from a successor-in-interest to AREP. The action was brought in the United States District Court for the Central District of California, for reimbursement of the cost of remediating certain environmental contamination that appears

to have been caused by a dry cleaner that was a tenant at the property; the amount of damages sought have not yet been quantified. Mr. Sklavenitis is suing the parties who are in the chain of ownership, as well as the dry cleaner and its predecessor. AREP believes that it has no liability for any such costs and intends to vigorously contest the action. In the event any liability under the suit is allocated to AREP, AREP will seek indemnification for such monies from Federated Department Stores, Inc., Ralph's Grocery Company and Los Coyotes Associates and the other owners in the chain of title.

Bankruptcies

AREP is aware that 14 of its present and former tenants have been or are currently involved in some type of bankruptcy or reorganization. Of AREP's 14 present and former tenants involved in bankruptcy proceedings or reorganization, nine have rejected their leases, affecting 28 properties, all of which have been vacated. See also Notes 7, 14 and 18 to the Financial Statements contained herein and "Business - Bankruptcies and Defaults" which describe various tenant and mortgagor bankruptcies for which AREP has filed claims.

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

None.

PART II

Item 5. Market for AREP's Common Equity and Related Security Holder Matters.

Market Information

AREP's Depositary Units are traded on the NYSE under the symbol "ACP." Trading on the NYSE commenced July 23, 1987, and the range of high and low market prices for the Depositary Units on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal) from January 1, 1994 through December 31, 1995 is as follows:

Quarter Ended:	High	Low
March 31, 1994	$8.375	$7.375
June 30, 1994	8.50	7.375
September 30, 1994	8.625	7.375
December 31, 1994	8.00	7.25
March 31, 1995	8.50	7.25
June 30, 1995	8.125	7.75
September 30, 1995	8.75	6.75
December 31, 1995	9.375	8.125

On March 20, 1996, the last sales price of the Depositary Units, as reported by the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal) was $8.875.

As of March 20, 1996, there were approximately 22,000 record holders of the Depositary Units.

Since January 1, 1994, AREP has made no cash distributions with respect to the Depositary Units.

Distributions

After evaluating the contingencies facing AREP, its anticipated cash flows, liquidity needs, maturing debt obligations and capital expenditure requirements, the Board of Directors of the General Partner reduced the quarterly distributions in 1993 from $.25 to $.125 per quarter. This reduction permitted management to continue to establish reserves for AREP's maturing debt obligations and other contingencies. In 1994 the General Partner determined that it was necessary for AREP to conserve cash and increase reserves from time to time in order to meet capital expenditures and maturing debt obligations and no distributions were made to Unitholders in 1994 or 1995.

On December 4, 1995, the Board of Directors of the General Partner announced that no distribution for the fiscal quarter ended December 31, 1995 would be made and that no

distributions are expected to be made in 1996. In making its announcement, AREP noted it plans to continue to apply available Partnership operating cash flow toward its operations, repayment of maturing indebtedness, tenant requirements and other capital expenditures and creation of cash reserves for Partnership contingencies, including environmental matters and scheduled lease

expirations. As previously reported, by the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, 40% of such rentals will be due for renewal. Another factor that AREP took into consideration was that net leases representing approximately 30% of AREP's net 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, AREP noted that net operating cash flow in 1995 was break-even, after payment of approximately $23,900,000 of periodic principal payments and maturing debt obligations, including an $11.3 million principal payment made in May 1995 on its Senior Unsecured Debt, capital expenditures and the creation of cash reserves for its obligations. In making its announcement, AREP stated that it expects to reconsider distribution issues for 1997. See Item 7 -- "Management's Discussion and Analysis of the Financial Condition and Results of Operations -- Capital Resources and Liquidity." A substantial portion of the proceeds from the Rights Offering and its available cash will be used to fund the acquisition of additional properties by AREP, which the General Partner believes have the potential to diversify and enhance the long-term value of AREP's investment portfolio.

Pursuant to the terms of the Preferred Units, on April 1, 1996, AREP will distribute to holders of record of Preferred Units as of March 15, 1996, additional Preferred Units at the rate of $.50 per Preferred Unit (which is equal to a rate of 5% of the liquidation preference thereof). The total number of additional Preferred Units anticipated to be distributed by AREP on April 1, 1996 is approximately 98,782.

Each Depositary Unitholder will be taxed on the Unitholder's allocable share of AREP's taxable income and gains and, with respect to Preferred Unitholders, accrued guaranteed payments, whether or not any cash is distributed to the Unitholder.

Repurchase of Depositary Units

AREP announced in 1987 its intention to purchase up to 1,000,000 Depositary Units. On June 16, 1993, AREP increased the amount of shares authorized to be repurchased to 1,250,000 Depositary Units. As of March 8, 1996, AREP had purchased 1,037,200 Depositary Units at an aggregate cost of approximately $11,184,000. Management has not been acquiring Depositary Units for AREP, although AREP may from time to time acquire additional Depositary Units. Under the terms of the Note Agreements for the Senior Unsecured Debt, distributions and the amounts used to repurchase Depositary Units cannot exceed net cash flow, as defined therein, plus $15,000,000. See Item 7 -- "Management's Discussion and Analysis of the Financial Condition and Results of Operations -- Capital Resources and Liquidity." To date this restriction has not impaired the ability of AREP to make distributions.

Item 6. Selected Financial Data.

	(Dollars in Thousands Except Per Unit Amounts) Year Ended December 31,				
	1995*	1994*	1993*	1992*	1991*
Total revenues	$ 69,920	$ 61,551	$ 60,157	$ 57,781	$ 56,571
Earnings before gain (loss) on property transactions and extraordinary item	$ 30,833	$ 19,577	$ 18,379	$ 20,581	$ 22,252
Gain (loss) on sales and disposition of real estate	5,092	4,174	4,760	342	893
Provision for loss on real estate	(769)	(582)	(462)	(8,847)	(4,252)
Earnings before extraordinary item	35,156	23,169	22,677	12,076	18,893
(Loss) gain from early					

extinguishment of debt	--	--	--	(784)	543
Net earnings	$ 35,156	$ 23,169	$ 22,677	$ 11,292	$ 19,436
Net earnings per limited partnership unit: Earnings before extraordinary item	$ 1.33	$ 1.64	$ 1.60	$ .84	$ 1.31
Extraordinary item	--	--	--	(.05)	.04
Net Earnings	$ 1.33	$ 1.64	$ 1.60	$ .79	$ 1.35
Distributions to partners	$ --	$ --	$ 7,078	$ 14,333	$ 28,755
At year end:					
Real estate leased to others	$ 412,075	$ 437,699	$ 444,409	$ 435,959	$ 474,859
Hotel operating properties	$ 13,362	$ 13,654	$ 14,070	$ 12,459	--
Mortgages and note receivable	$ 15,056	$ 8,301	$ 20,065	$ 22,447	$ 22,491
Total assets	$ 620,880	$ 492,868	$ 502,981	$ 503,262	$ 517,100
Senior indebtedness	$ 33,923	$ 45,231	$ 55,231	$ 54,684	$ 53,607
Mortgages payable	$ 163,968	$ 174,096	$ 195,274	$ 205,938	$ 213,503
Partners' equity	$ 404,189	$ 259,237	$ 236,068	$ 221,855	$ 225,693

* To the extent financial information pertaining to AREP is reflected, such information is consolidated for AREP and its Subsidiary.

Item 7. Management's Discussion and Analysis of the Financial Condition and Results of Operations.

General

Historically, substantially all of AREP'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 AREP is not typically responsible for payment of expenses, such as maintenance, utilities, taxes and insurance associated with such properties. AREP has experienced an increase in its property expenses in recent years, due principally to tenant bankruptcies and defaults as well as the acquisition of operating properties, although such expenses decreased in 1995 in comparison to 1994 as discussed below under "-Results of Operations".

Economic conditions in recent years led the General Partner to reexamine from time to time AREP'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. In addition, the availability of acceptable financing to refinance maturing debt obligations including AREP's Senior Unsecured Debt became increasingly scarce. Consequently, the General Partner determined it was necessary to conserve cash and establish reserves from time to time. As a result, there was insufficient cash flow from operations to pay distributions to unitholders and such distributions were reduced and finally suspended. As discussed below, AREP's investment strategy is to apply its capital transaction proceeds and Rights Offering proceeds, including interest earned thereon, toward its investment purposes.

By the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net leases representing approximately 40% of AREP's net annual rentals will be due for renewal. Since most of AREP'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 AREP may be required to incur expenditures to renovate such properties for new tenants. In addition, AREP 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, AREP could experience an adverse impact on net cash flow from such properties.

As a consequence of the foregoing, AREP decided to raise funds through the Rights Offering to increase its assets available for investment, take advantage of real estate investment opportunities, further diversify its portfolio and mitigate against the impact of potential lease expirations. The Rights Offering was successfully completed during April 1995 and net proceeds of approximately $107.6 million were raised for investment purposes. In order to enhance AREP's investment portfolio (and ultimately its asset values and cash flow prospects), AREP is seeking to acquire investments in undervalued properties, 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 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 AREP to maintain a strong capital base.

Expenses relating to environmental clean-up have not had a material effect on the earnings, capital expenditures, or competitive position of AREP. 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 AREP will not be deemed to be a responsible party or that the tenant will bear the costs of remediation. Also, as AREP acquires more operating properties, its exposure to environmental clean-up costs may increase. AREP 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 limited Phase II Environmental Site Investigations be conducted. AREP has notified each of the tenants of the respective sites of the environmental consultant's findings. If such tenants do not arrange for further investigations, or remediations, if required, AREP 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 AREP's exposure could amount to $3-4 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, AREP is planning Phase I Environmental Site Assessments for approximately 100 more net leased properties during 1996 and 1997. Phase I Environmental Site Assessments will also be performed in connection with new acquisitions and with such property refinancings as AREP may deem necessary and appropriate.

Results of Operations

Calendar Year 1995 Compared to Calendar Year 1994. Gross revenues increased by approximately $8,370,000, or 13.6%, during calendar year 1995 as compared to calendar year 1994. This increase reflects approximate increases of $6,715,000, or 466.8%, in other interest income, $2,655,000 in other income, $980,000, or 11.1%, in hotel operating income, and $558,000, or 2.9%, in rental income, partially offset by a decrease of approximately $2,538,000, or 7.9%, in financing lease income. The increase in other interest income is primarily due to an increase in AREP's short-term cash investments as a result of the Rights Offering proceeds and the investment in the Facility Agreement. The increase in other income is primarily due to the settlement of the Chipwich and Be-Mac

bankruptcy claims. The hotel operating revenues were generated by two hotels formerly leased to Integra. AREP has been

operating these hotel properties through a third-party management company since August 7, 1992. The increase in rental income is primarily due to increased rents at the two apartment complexes in Lexington, Kentucky and the new apartment complex in Alabama, partially offset by the loss of rents due to property sales. The decrease in financing lease income is primarily attributable to normal lease amortization and property sales.

Expenses decreased by approximately $2,886,000, or 6.9%, during calendar year 1995 compared to calendar year 1994. This decrease reflects decreases of approximately $3,122,000, or 13.7%, in interest expense, $586,000, or 13.3%, in property expenses and $185,000, or 6.7%, in general and administrative expenses, partially offset by increases of approximately $630,000, or 8.9%, in hotel operating expenses and $377,000, or 7.6%, in depreciation and amortization expense.

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, certain loan refinancings, as well as the sale of encumbered properties. The decrease in property expenses is primarily attributable to decreases in certain operating property expenses and environmental review expenses. The hotel expenses were generated from the hotels mentioned previously.

Earnings before property transactions increased during the calendar year 1995 by approximately $11,256,000, or 57.5%, from calendar year 1994 primarily due to increased interest income earned on the Rights Offering proceeds, other income from the settlement of bankruptcy claims and decreased interest expense due to refinancings and repayments of maturing debt obligations, partially offset by a decrease in financing lease income.

Gain on property transactions increased by approximately $918,000 during the calendar year 1995 as compared to calendar year 1994, due to differences in the size and number of transactions.

During calendar year 1995, AREP recorded a provision for loss on real estate of approximately $769,000 as compared to $582,000 in 1994.

Net earnings for the calendar year 1995 increased by approximately $11,987,000, or 51.7%, as compared to net earnings for the calendar year 1994. This increase was primarily attributable to the increase in other interest income, other income from the settlement of bankruptcy claims and decreased interest expense, partially offset by a decrease in financing lease income.

Calendar Year 1994 Compared to Calendar Year 1993. Gross revenues increased by approximately $1,394,000, or 2.3%, during calendar year 1994 as compared to calendar year 1993. This increase reflects approximate increases of $3,393,000, or 21.6%, in rental income and $405,000, or 4.8%, in hotel operating income, partially offset by decreases of approximately $861,000, or 2.6%, in financing lease income, $571,000, or 28.4%, in other interest income, and $972,000, or 84.1%, in other income. The increase in rental income is primarily attributable to the two apartment complexes in Lexington, Kentucky acquired in 1993, increases

in rents from a property formerly occupied by Amdura and rents received from BJ's Warehouse Store. The hotel operating revenues were generated by two hotels formerly leased to Integra. AREP has been operating these hotel properties through a third-party management company since August 7, 1992. The decrease in financing lease income is primarily attributable to normal

amortization of financing leases partially offset by increased income from the Toy's "R" Us properties reacquired as a result of foreclosure on defaulted purchase money mortgages. The decrease in other interest income is primarily attributable to less interest received on defaulted purchase money mortgages and payments of balloon balances due. The decrease in other income related primarily to the settlement of the Days Inn bankruptcy claim, most of which was recognized in 1993.

Expenses increased by approximately $196,000, or .5%, during calendar year 1994 compared to calendar year 1993. This increase reflects increases of approximately $1,833,000, or 71.1%, in property expenses, $600,000, or 13.8%, in depreciation and amortization and $336,000, or 13.7%, in general and administrative expenses, offset by decreases of approximately $2,392,000, or 9.5%, in interest expense and $181,000, or 2.5%, in hotel operating expenses. The increase in property expenses is primarily attributable to costs associated with the newly acquired operating properties mentioned previously, as well as the former Days Inn and Amdura properties now operated by the Company. The decrease in interest expense is primarily attributable to normal loan amortization and reductions due to certain loan refinancings and the repayments of maturing balloon debt obligations, including the Senior Unsecured Debt.

Earnings before property transactions increased during the calendar year 1994 by approximately $1,198,000, or 6.5%, from calendar year 1993.

Gain on property transactions decreased by approximately $586,000 during the calendar year 1994 as compared to calendar year 1993, due to differences in the size and number of transactions.

During calendar year 1994, AREP recorded a provision for loss on real estate of $582,000 as compared to $462,000 in 1993.

Net earnings for the calendar year 1994 increased by approximately $492,000, or 2.2%, as compared to net earnings for the calendar year 1993. This increase is attributable to the approximate $1,198,000 increase in earnings before property transactions, offset by the decrease in gain on sales of real estate and the increase in provision for loss on real estate.

Capital Resources and Liquidity

Generally, the cash needs of AREP for day-to-day operations have been satisfied from cash flow generated from current operations. In recent years, AREP 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 mortgages receivable reduced by periodic principal payments on mortgage debt.

AREP may not be able to re-let certain of its properties at current rentals. As previously discussed, net leases representing approximately 40% of AREP's net annual rentals will be due for renewal by the end of the year 2002. In 1995, seventeen leases covering twenty-six properties and representing approximately $996,000 in annual rentals expired. Sixteen of these twenty-six properties originally representing approximately $653,000 in annual rental income have been or will be re-let or renewed for approximately $662,000 in annual rentals. Three properties, with an approximate annual rental income of $137,000, are currently being marketed for sale or lease. Seven properties with annual rentals of approximately $206,000 were sold in 1995.

In 1996, 22 leases covering 22 properties and representing approximately $2,413,000 in annual rentals are scheduled to expire. Seven of these 22 leases originally representing approximately $1,102,000 in annual rental income have been or will be re-let or renewed for approximately $1,109,000 in annual rentals. Such renewals are generally for a term of five years. Six leases, with an approximate annual rental income of $822,000, will

be marketed for sale or lease when the current lease terms expire. Tenants occupying two of the properties with approximate annual rental income of $358,000 have elected to exercise their purchase options and the renewal status of the remaining seven properties representing approximately $131,000 in annual rental income is uncertain as of the date hereof.

After evaluating the contingencies facing AREP, its anticipated cash flows, liquidity needs, maturing debt obligations and capital expenditure requirements, the Board of Directors of the General Partner reduced the quarterly distributions in 1993 from $.25 to $.125 per quarter. This reduction permitted management to continue to establish reserves for AREP's maturing debt obligations and other contingencies. In 1994 the General Partner determined that it was necessary for AREP to conserve cash and increase reserves from time to time in order to meet capital expenditures and maturing debt obligations and no distributions were made to Unitholders in 1994 or 1995.

On December 4, 1995, the Board of Directors of the General Partner announced that no distribution for the fiscal quarter ended December 31, 1995 would be made and that no distributions on its Depositary Units are expected to be made in 1996. In making its announcement, AREP noted it plans to continue to apply available Partnership operating cash flow toward its operations, repayment of maturing indebtedness, tenant requirements and other capital expenditures and creation of cash reserves for Partnership contingencies including environmental matters and scheduled lease expirations. As previously reported, by the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals will be due for renewal, and by the end of the year 2002, 40% of such rentals will be due for renewal. Another factor that AREP took into consideration was that net leases representing approximately 30% of AREP'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, AREP noted that net operating cash flow in 1995 was break-even, after payment of approximately $23,900,000 of periodic principal payments and maturing debt obligations, including an $11.3

million principal payment made in May 1995 on its Senior Unsecured Debt, capital expenditures and the creation of cash reserves for its obligations. In making its announcement, AREP stated that it expects to reconsider distribution issues for 1997.

There were no distributions due to Unitholders for the year ended December 31, 1995. Distributions paid during December 31, 1995 totalled approximately $105,000, representing distributions due to Unitholders who exchanged their limited partner interests during 1995. There were no distributions due to Unitholders for the year ended December 31, 1994. Distributions paid during 1994 totalled approximately $1.9 million, representing distributions due to Unitholders for the fourth quarter of 1993 and to Unitholders who exchanged their limited partner interests during 1994. Distributions due to Unitholders for the year ended December 31, 1993 were approximately $7,100,000. Distributions paid during 1993 totalled approximately $9,300,000, representing distributions due to Unitholders for the fourth quarter of 1992, the first three quarters of 1993 and to Unitholders who exchanged their limited partner interests during 1993.

During the year ended December 31, 1995, AREP generated approximately $26,900,000 in cash flow from day-to-day operations which excludes approximately $4.6 million in interest earned on the Rights Offering proceeds which will be retained for future acquisitions. In addition, approximately $2.8 million of non-recurring income, including approximately $2 million from the Chipwich bankruptcy settlement, was recorded. During 1994, AREP generated approximately $22,000,000 in cash flow from day-to-day operations and approximately $200,000 from the Days Inn bankruptcy settlement.

Capital expenditures for real estate, excluding new acquisitions, were approximately $2,100,000 during 1995. During 1994, such expenditures totalled approximately $2,300,000. During 1993, such expenditures totalled approximately $2,500,000.

During 1995, approximately $14.9 million of balloon mortgages were

repaid out of AREP's cash flow, including the scheduled payment due on AREP's Senior Unsecured Debt. During 1994, approximately $16.7 million of balloon mortgages were repaid out of the AREP's cash flow, including the scheduled payment due on the AREP's Senior Unsecured Debt. In addition to payments due under AREP's Senior Unsecured Debt, approximately $19,000,000 and $5,500,000 of maturing balloon mortgages are due in 1996 and 1997, respectively, and during the period 1998 through 1999 approximately $12,000,000 in maturing mortgages come due. AREP will seek to refinance a portion of these maturing mortgages, although it does not expect to be able to refinance all of them and may be required to repay them from cash flow and increase reserves from time to time, thereby reducing cash flow otherwise available for other uses.

During 1995, net cash flow after payment of maturing debt obligations and capital expenditures but before creation of cash reserves was approximately $10 million, excluding non-recurring income and interest earned on the Rights Offering proceeds which will be retained for acquisitions. After the creation of such reserves net cash flow for 1995 was approximately break-even. AREP's operating cash reserves are approximately $23 million at December 31, 1995 which are being retained to meet maturing debt obligations, capitalized expenditures for

real estate and certain contingencies facing AREP. AREP 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. Rights Offering proceeds and related interest income are being retained 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. In addition to using its available cash to make these types of investments, AREP intends to sell some of its existing portfolio properties and use such proceeds to reinvest in such undervalued assets. These types of investments may involve debt restructuring, capital improvements and active asset management and by their nature as underperforming assets may not be readily financeable and may not generate immediate positive cash flow. As such, they require AREP to maintain a strong capital base both to react quickly to these market opportunities as well as to allow AREP to rework the assets to enhance their turnaround performance.

AREP also has significant maturing debt requirements under the Note Agreements. As of December 31, 1995, AREP has $33,923,329 of Senior Unsecured Debt outstanding. Pursuant to the Note Agreements, AREP 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, AREP deferred and capitalized 2% annually of its interest payment through May 1993. In May 1994 and 1995, AREP repaid $10 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 annually from 1996 through the final payment date of May 27, 1998. As of December 31, 1995, AREP was in compliance with the terms of the Note Agreements.

The Note Agreements contain certain covenants restricting the activities of AREP. Under the Note Agreements, AREP 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 AREP 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 AREP in the Rights Offering.

The Note Agreements contain certain prepayment penalties which AREP 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 March 8, 1996, the premium required in order to prepay the Note Agreement in full would have been approximately $2,745,000. Subject to negotiating favorable terms AREP may prepay in full the Senior Unsecured Debt. Prepayment would release the Company from certain covenants which restrict its operating and investment activities, including, among others, covenants relating to the level of net annual rentals from unencumbered properties and the ability to create liens and

incur additional debt. To date, the Partnership has been unable to negotiate favorable terms for such prepayment.

Sales proceeds from the sale or disposal of portfolio properties totalled approximately $21 million in 1995. During 1994, sales proceeds totalled approximately $12.6 million, including $1.4 million of net proceeds from a balloon payment of a mortgage receivable. During 1995, AREP received $9.8 million of mortgage proceeds from the financing of its two apartment complexes located in Lexington, Kentucky. In addition, approximately $8.8 million of mortgage financing was obtained by the Alabama joint venture. AREP intends to use property sales, financing and refinancing proceeds for new investments. In addition, AREP successfully completed its Rights Offering in April 1995 and net proceeds of approximately $107.6 million were raised for investment purposes.

AREP entered into two joint ventures with unaffiliated co-venturers in June 1994 for the purpose of developing luxury garden apartment complexes in Hoover, Alabama, and Cary, North Carolina. In the year ended December 31, 1994, AREP invested approximately $5,500,000 in these joint ventures. During 1995, AREP invested approximately an additional $400,000. In May 1995, AREP acquired approximately 248 acres of land for approximately $3,044,000. AREP intends to develop and construct 45 to 50 single-family detached luxury homes on this land. In August 1995, AREP invested approximately $7.1 million by purchasing a portion of an unsecured Senior Term Facility Agreement. The borrower is Queens Moat Houses P.L.C., which is a United Kingdom based hotel operator with properties located in various countries in Europe.

AREP's cash and cash equivalents increased by approximately $147.6 million during 1995, primarily due to Rights Offering proceeds, and the interest earned thereon, of $115.4 million, sales proceeds, net of property acquisitions and investments, of approximately $11 million and financing proceeds of approximately $10 million. These funds are being retained for investment in undervalued assets including commercial properties, residential development projects, land parcels, non-performing loans and securities of companies which own significant real estate assets. In addition, approximately $10 million of additional cash reserves were created.

Item 8. Financial Statements

INDEPENDENT AUDITORS' REPORT

The Partners
American Real Estate Partners, L.P:

We have audited the accompanying consolidated balance sheets of American Real Estate
Partners, L.P. and subsidiary as of December 31, 1995 and 1994, and the related consolidated statements of earnings, changes in partners' equity and cash flows for each of the years in the three-year period ended December 31, 1995. In

connection with our audits of the consolidated financial statements, we also have audited the 1995 financial statement schedule as listed in the Index at Item 14 (a) 2. These consolidated financial statements and the financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Real Estate Partners, L.P. and subsidiary as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

New York, New York
March 7, 1996

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 and 1994

ASSETS	1995	1994
REAL ESTATE LEASED TO OTHERS:		
Accounted for under the financing method (Notes 2, 4 and 7)	$281,532,529	$ 314,260,786
Accounted for under the operating method, net of accumulated depreciation (Notes 2, 5 and 7)	130,542,549	123,438,444
CASH AND CASH EQUIVALENTS (Note 2)	166,261,635	18,615,572
MORTGAGES AND NOTE RECEIVABLE (Notes 6, 7, 12 and 16)	15,056,367	8,301,090
HOTEL OPERATING PROPERTIES, net of accumulated depreciation (Notes 5 and 7)	13,362,375	13,654,442
RECEIVABLES AND OTHER ASSETS (Note 16)	4,587,765	5,373,553
CONSTRUCTION-IN-PROGRESS (Note 7)	5,622,156	6,681,333
DEBT PLACEMENT COSTS - Net of accumulated amortization (Note 2)	1,931,472	2,130,003

	1995	1994
PROPERTY HELD FOR SALE (Notes 2, 7 and 15)	1,983,033	412,717
TOTAL	$620,879,881	$492,867,940

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 and 1994 (Continued)

	1995	1994
LIABILITIES AND PARTNERS' EQUITY		
MORTGAGES PAYABLE (Notes 4, 5, 8 and 16)	$163,967,561	$ 174,095,697
SENIOR INDEBTEDNESS (Notes 9 and 16)	33,923,329	45,231,106
CONSTRUCTION LOAN PAYABLE (Note 7)	7,834,175	2,393,954
ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES (Notes 7 and 16)	5,770,443	6,496,410
DEFERRED INCOME (Note 6)	3,524,349	3,637,398
DISTRIBUTIONS PAYABLE (Notes 3 and 17)	1,671,069	1,776,482
	216,690,926	233,631,047
COMMITMENTS AND CONTINGENCIES (Notes 3, 14 and 18)		
LIMITED PARTNERS:		
Preferred units, $10 liquidation preference, 5% cumulative pay-in-kind redeemable; 4,200,000 authorized, 1,975,640 issued and outstanding	20,497,265	-
Depositary units; 26,850,000 authorized; 25,666,640 and 13,812,800 outstanding as of December 31, 1995 and 1994	386,609,631	265,039,380
GENERAL PARTNER	8,265,924	5,381,378
TREASURY UNITS AT COST: 1,037,200 depositary units	(11,183,865)	(11,183,865)
PARTNERS' EQUITY (Notes 2, 3 and 10)	404,188,955	259,236,893
TOTAL	$620,879,881	$ 492,867,940

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

REVENUES:	1995	1994	1993
Interest income:			
Financing leases	$ 29,452,066	$ 31,990,262	$ 32,851,135
Other	8,153,310	1,438,491	2,009,598
Rental income	19,641,915	19,084,506	15,691,513
Hotel operating income (Note 7)	9,833,752	8,853,480	8,448,879
Other income (Note 7)	2,839,423	183,987	1,155,674
	69,920,466	61,550,726	60,156,799
EXPENSES:			
Interest expense	19,613,860	22,735,908	25,127,931
Depreciation and amortization	5,337,884	4,960,704	4,360,933
General and administrative expenses (Note 3)	2,605,331	2,791,123	2,454,786
Property expenses	3,827,641	4,413,651	2,580,259
Hotel operating expenses (Note 7)	7,702,874	7,072,641	7,254,119
	39,087,590	41,974,027	41,778,028
EARNINGS BEFORE PROPERTY TRANSACTIONS	30,832,876	19,576,699	18,378,771
PROVISION FOR LOSS ON REAL ESTATE (Notes 7 and 14)	(768,701)	(582,000)	(462,000)
GAIN ON SALES AND DISPOSITION OF REAL ESTATE (Note 7)	5,091,445	4,173,865	4,759,983
NET EARNINGS	$ 35,155,620	$ 23,168,564	$ 22,676,754
NET EARNINGS ATTRIBUTABLE TO (Note 3):			
Limited partners	$ 34,456,023	$ 22,707,510	$ 22,225,487
General partner	699,597	461,054	451,267
	$ 35,155,620	$ 23,168,564	$ 22,676,754
NET EARNINGS PER LIMITED PARTNERSHIP UNIT (Notes 2 and 11):	$1.33	$1.64	$1.60
LIMITED PARTNERSHIP UNITS OUTSTANDING AT YEAR-END (Note 10)	25,666,640	13,812,800	13,812,800

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' EQUITY

YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	General Partner's Equity	Limited Partners' Equity: Depository Units	Limited Partners' Equity: Preferred Units	Held in Treasury: Amount	Held in Treasury: Units	Total Partners' Equity
BALANCE, DECEMBER 31, 1992	$ 4,609,905	$ 227,043,333	$ -	$ (9,798,674)	868,700	$ 221,854,564
Net earnings	451,267	22,225,487	-	-	-	22,676,754
Distribution to partners (Notes 2 and 3)	(140,848)	(6,936,950)	-	-	-	(7,077,798)
Purchase of Treasury units	-	-	-	(1,385,191)	168,500	(1,385,191)
BALANCE, DECEMBER 31, 1993	$ 4,920,324	$ 242,331,870	$	$ (11,183,865)	1,037,200	$ 236,068,329
Net earnings	461,054	22,707,510	-	-	-	23,168,564
BALANCE, DECEMBER 31, 1994	$ 5,381,378	$ 265,039,380	$ -	$ (11,183,865)	1,037,200	$ 259,236,893
Net earnings	699,597	34,456,023	-	-	-	35,155,620
Rights offering	-	88,903,800	19,756,400	-	-	108,660,200
Expenses of Rights offering	(21,293)	(1,048,707)	-	-	-	(1,070,000)
Capital Contribution	2,206,242	-	-	-	-	2,206,242
Pay-in-kind distribution	-	(740,865)	740,865	-	-	-
BALANCE, DECEMBER 31, 1995	$ 8,265,924	$ 386,609,631	$ 20,497,265	$ (11,183,865)	1,037,200	$ 404,188,955

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 35,155,620	$ 23,168,564	$ 22,676,754
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	5,337,884	4,960,704	4,360,933
Deferred interest expense	-	-	546,842
Amortization of deferred income	(26,218)	(26,218)	(26,218)
Gain on sales and disposition of real estate	(5,091,445)	(4,173,865)	(4,759,983)
Provision for loss on real estate	768,701	582,000	462,000
Changes in:			
(Decrease) increase in accounts payable and accrued expenses	(782,826)	1,139,297	131,638
Decrease in deferred income	(3,767)	(3,640)	(100,269)
Decrease (increase) in receivables and other assets	72,249	(177,434)	(1,440,793)
Net cash provided by operating activities	35,430,198	25,469,408	21,850,904
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in mortgages and note receivable	(7,396,106)	116,524	(5,391,052)
Net proceeds from the sales and disposition of real estate	21,303,820	11,171,802	11,667,845
Principal payments received on leases accounted for under the financing method	7,204,850	6,708,644	6,066,011
Construction in progress	(14,080,412)	(6,681,333)	-
Principal receipts on mortgages receivable	301,273	275,459	251,857
Property acquisitions	(3,280,259)	(3,336,145)	(12,074,542)
Capitalized expenditures for real estate	(2,067,824)	(2,331,380)	(2,490,061)
Balloon payment on mortgage receivable	-	1,392,649	2,411,698

	1995	1994	1993
Net cash provided by investing activities	1,985,342	7,316,220	441,756
CASH FLOWS FROM FINANCING ACTIVITIES:			
Partners' equity:			
Proceeds from rights offering	110,866,442	-	-
Expenses of the rights offering	(468,380)	-	-
Purchase of treasury units	-	-	(1,385,191)
Distribution to partners	(105,413)	(1,868,607)	(9,268,892)
Debt:			
Increase in mortgages payable	18,631,467	282,391	4,036,933
Early extinguishment of mortgages payable	-	(3,364,023)	(3,038,346)
Periodic principal payments	(8,959,273)	(9,241,669)	(9,032,917)
Balloon payments	(3,632,696)	(6,682,984)	(3,808,767)
Senior debt principal payment	(11,307,777)	(10,000,000)	-
Increase in construction loan payable	5,440,221	2,393,954	-
Debt placement costs	(234,068)	(621,678)	(502,558)
Net cash provided by (used in) financing activities	110,230,523	(29,102,616)	(22,999,738)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	147,646,063	3,683,012	(707,078)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,615,572	14,932,560	15,639,638
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 166,261,635	18,615,572	$ 14,932,560

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
SUPPLEMENTAL INFORMATION:			
Cash payments for interest	$ 19,903,859	22,762,631	$ 25,492,543
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Property acquired in satisfaction of mortgages:			
Additions to property accounted for under the financing method	$ -	-	$ 4,141,930
Additions to property accounted for under the operating method	256,492	6,645,589	1,812,319
Additions to mortgages payable	-	-	(2,904,481)
Decrease in mortgages receivable	(365,774)	(9,109,376)	(3,550,365)
Increase to property held for sale	-	300,530	-
Decrease in deferred income	109,282	2,163,257	500,597
	$ -	-	$ -
Reclassification of real estate to operating lease	$ 15,139,589	-	4,686,419
Reclassification of real estate from operating lease	(1,104,916)	(840,844)	(1,018,735)
Reclassification of real estate from financing lease	(669,187)	-	(808,667)
Reclassification of real estate from construction in progress	(15,139,589)	-	(3,961,656)
Reclassification of real estate to property held for sale	1,774,103	840,844	1,102,639
	$ -	$ -	$ -

See notes to consolidated financial statements.

1. ORGANIZATION AND BASIS OF PRESENTATION

On July 1, 1987, American Real Estate Holdings Limited Partnership (the "Subsidiary"), in connection with an exchange offer (the "Exchange"), entered into merger agreements with American Real Estate Partners, L.P. (the "Company") and each of American Property Investors, L.P., American Property Investors II, L.P., American Property Investors III, L.P., American Property Investors IV, L.P., American Property Investors V, L.P., American Property Investors VI, L.P., American Property Investors VII, L.P., American Property Investors VIII, L.P., American Property Investors IX, L.P., American Property Investors X, L.P., American Property Investors XI, L.P., American Property Investors 82, L.P. and American Property Investors 83, L.P. (collectively, the "Predecessor Partnerships"), pursuant to which the Subsidiary acquired all the assets, subject to the liabilities (known and unknown) of the Predecessor Partnerships.

The limited partners of the Predecessor Partnerships received limited partner interests in the Subsidiary. The number of such limited partner interests received by a limited partner was determined based upon his percentage ownership interest in the Predecessor Partnerships, the value of the Predecessor Partnerships' net assets and the number of limited partner interests allocable to the Predecessor Partnerships' general partners and their affiliates. The limited partner interests in the Subsidiary were contributed to the Company in exchange for limited partner interests therein. Limited partnership interests were allocable to the Predecessor Partnerships' general partners and their affiliates as a result of their rights: (i) to receive a portion of the cash flow of the Predecessor Partnerships by virtue of their ownership of interests in such partnerships and their entitlement to receive management fees and nonaccountable expense reimbursements and (ii) to share in the proceeds from the sale or liquidation of the assets of the Predecessor Partnerships and to receive real estate commissions with respect to the sale of properties by the Predecessor Partnerships. These rights of the Predecessor Partnerships' general partners and their affiliates were valued in connection with the Exchange. As a result of such valuation, and the assignment of the interests receivable by the corporate affiliates to American Property Investors, Inc. (the "General Partner"), an aggregate of 1,254,280 units and a 1% general partner interest in the Company were issued to the General Partner and 5,679 units were issued to noncorporate affiliates of the Predecessor Partnerships' general partners. In addition, the General Partner also received a 1% general partner interest in the Subsidiary.

By virtue of the Exchange, the Subsidiary owns the assets, subject to the liabilities, of the Predecessor Partnerships. The Company owns a 99% limited partner interest in the Subsidiary. The General Partner owns a 1% general partner interest in both the Subsidiary and the Company representing an aggregate 1.99% general partner interest in the Company and the Subsidiary.

The participation in the transaction by a Predecessor Partnership was conditioned upon obtaining the approval of a majority-in-interest of the limited partners in such Predecessor Partnership. Such approvals were obtained with respect to each of the Predecessor Partnerships prior to July 1, 1987.

During 1989, Integrated Resources, Inc. ("Integrated"), the former parent of the General Partner, experienced serious financial difficulties and,

on February 13, 1990, it filed in the Bankruptcy Court for the Southern District of New York a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code (the "Filing"). The General Partner was a separate entity and neither the General Partner nor any other subsidiary of Integrated was included in the Filing.

On September 13, 1990, in connection with its voluntary petition for reorganization pursuant to Chapter 11 of the Bankruptcy Code, Integrated entered into an agreement whereby it agreed to sell all of its stock in the General Partner to Meadowstar Holding Company, Inc. ("Meadowstar"). Neither the Company nor the General Partner was a party to such agreement. The sale of the stock of the General Partner to Meadowstar was approved by the Bankruptcy Court on October 22, 1990. On November 15, 1990, pursuant to the terms of the Acquisition Agreement, Meadowstar purchased all of the outstanding shares of Common Stock of the General Partner. In May 1993, Carl C. Icahn acquired all of Meadowstar's interest in the General Partner. See Note 10 pertaining to the Rights Offering consummated in March 1995.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Principles of Consolidation - The consolidated financial statements are prepared on the accrual basis of accounting and include only those assets, liabilities and results of operations which relate to the Company and the Subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

Registration Costs, Expenses of the Exchange and Rights Offering Expenses - Registration costs of the Predecessor Partnerships were charged against partners' equity upon the closing of the public offerings in accordance with prevalent industry practice. Expenses of the Exchange were charged against partners' equity upon consummation of the Exchange. Rights Offering Expenses were charged against partners' equity upon consummation of the Right's Offering.

Net Earnings and Distributions Per Limited Partnership Unit - For financial reporting purposes, the weighted average number of depositary units and equivalent units outstanding and subscribed for assumed outstanding for the year ended December 31, 1995 was 27,467,194. For the years ended December 31, 1994 and 1993 the weighted average number of depositary units assumed outstanding was 13,812,800 and 13,889,667, respectively. There were no distributions in 1995 or 1994. Distributions were $.50 per unit in 1993.

Unit Option Plan - The Company adopted a Nonqualified Unit Option Plan (the "Plan") in 1987, which was further amended in 1989, under which options to purchase an aggregate of 1,416,910 depositary Units may be granted to officers and key employees of the General Partner and the Company who provide services to the Company. To date, no options have been granted under the Plan.

Cash and Cash Equivalents - The Company considers short-term investments, which are highly liquid with original maturities of three months or less from date of issuance, to be cash equivalents.

Included in cash and cash equivalents at December 31, 1995 and 1994 are investments in government backed securities of approximately $164,130,000 and $17,155,000, respectively.

Income Taxes - No provision has been made for Federal, state or local income taxes since the Company is a partnership and, accordingly, such taxes are the responsibility of the partners.

Leases - The Company leases to others substantially all its real property under long-term net leases and accounts for these leases in accordance with the provisions of Financial Accounting Standards Board Statement No.

13, "Accounting for Leases," as amended. This Statement sets forth specific criteria for determining whether a lease is to be accounted for as a financing lease or operating lease.

a. Financing Method - Under this method, minimum lease payments to be received plus the estimated value of the property at the end of the lease are considered the gross investment in the lease. Unearned income, representing the difference between gross investment and actual cost of the leased property, is amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.

b. Operating Method - Under this method, revenue is recognized as rentals become due and expenses (including depreciation) are charged to operations as incurred.

Properties - Properties, other than those accounted for under the financing method, are carried at cost less accumulated depreciation unless declines in the values of the properties are considered other than temporary.

For each of the years ended December 31, 1995, 1994 and 1993 no individual real estate or series of assets leased to the same lessee accounted for more than 10% of the gross revenues of the Company. At December 31, 1994 and 1993, Portland General Electric Company occupied a property, consisting of corporate offices, which represented more than 10% of the Company's total assets.

Depreciation - Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years. When properties are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the property account and the accumulated depreciation account, and any gain or loss on such sale or disposal is generally credited or charged to income (see Note 7).

Debt Placement Costs - Debt placement costs are amortized on a straight-line basis over the term of the respective indebtedness.

Use of Estimates - Management of the Partnership has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Assets Held for Sale - Assets held for sale are carried at the lower of cost or net realizable value.

Accounting by Creditors for Impairment of a Loan - On January 1, 1995, SFAS No. 114, Accounting by Creditors for Impairment of a Loan ("Statement 114"), as amended by SFAS 118, Accounting by Creditors for Impairment of a Loan - Income Recognition Disclosures, was adopted by the Company. In accordance with these standards, if it is probable that based upon current information that a creditor will be unable to collect all amounts due according to the contractual terms of a loan agreement, the asset is considered "impaired". Reserves are established against impaired loans in amounts equal to the difference between the recorded investment in the asset and either the present value of the cash flows expected to be received, or the fair value of the underlying collateral if foreclosure is deemed probable or if the loan is considered collateral dependent. The adoption of Statement 114 and 118 had no impact on net income.

Impact of New Accounting Standards Issued, But Not Yet Adopted
Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of ("Statement 121")

Statement 121, which was issued in March 1995 , and requires that long-lived assets and certain identifiable intangibles, and goodwill related to those assets to be held and used and long-lived assets and certain identifiable intangibles to be disposed of, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Statement 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the entity should estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than that carrying amount of the asset, an impairment loss is recognized. Otherwise, an impairment loss in not recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use should be based on the fair value of the asset.

This Statement generally requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell.

Statement 121 is effective for fiscal years beginning after December 15, 1995, applied prospectively. Statement 121 is not expected to have a material effect on the Company's financial condition or results of operations.

3. CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES

a. The General Partner and its affiliates may realize substantial fees, commissions and other income from transactions involving the purchase, operation, management, financing and sale of the Partnership's properties, subject to certain limitations relating to properties acquired from the Predecessor Partnerships in the Exchange. Some of such amounts may be paid regardless of the overall profitability of the Partnership and whether any distributions have been made to Unitholders. As new properties are acquired, developed, constructed, operated, leased, financed and sold, the General Partner or its affiliates may perform acquisition functions, development and construction oversight and other land development services, property management and leasing services, either on a day-to-day basis or on an asset management basis, and other services and be entitled to fees and reimbursement of expenses relating thereto, including the Reinvestment Incentive Fee, property management fees, real estate brokerage and leasing commissions, fees for financing either provided or arranged by the General Partner and its affiliates, development fees, general contracting fees and construction management fees. The terms of any transactions between the Company and the General Partner or its affiliates must be fair and reasonable to the Company and customary to the industry.

Reinvestment incentive fees as payment for services rendered in connection with the acquisition of properties from July 1, 1987 through July 1, 1997 were 1% of the purchase price for the first five years and are 1/2% for the second five years.

Reinvestment incentive fees are only payable on an annual basis if the sum of (x), the sales price of all Predecessor Partnerships' properties (net of associated debt which encumbered such properties at the consummation of the Exchange) sold through the end of such year, and (y), the appraised value of all Predecessor Partnerships' properties which have been financed or refinanced (and not subsequently sold), net of the amount of

any refinanced debt, through the end of such year determined at the time of such financings or refinancings, exceeds the aggregate values assigned to such Predecessor Partnerships' properties for purposes of the Exchange. If the subordination provisions are not satisfied in any year, payment of reinvestment incentive fees for such year will be deferred. At the end of each year, a new determination will be made with respect to subordination requirements (reflecting all sales, financings and refinancings from the consummation of the Exchange through the end of such year) in order to ascertain whether reinvestment incentive fees for that year and for any prior year, which have been deferred, may be paid.

From the commencement of the Exchange through December 31, 1995 the Company (i) sold or disposed of an aggregate of 140 properties of the Predecessor Partnerships for an aggregate of approximately $69,123,000, net of associated indebtedness which encumbered such properties at the consummation of the Exchange and (ii) refinanced 25 Predecessor Partnership properties with an aggregate appraised value, net of the amount of the refinanced debt, of approximately $44,431,000 for a sum total of approximately $113,554,000. Aggregate appraised values attributable to such properties for purposes of the Exchange were approximately $105,039,000. Sixteen properties have been acquired since the commencement of the exchange, including two joint ventures entered into in 1994, for aggregate purchase prices of approximately $58,000,000. Reinvestment incentive fees of approximately $354,000 have previously been paid to the General Partner, and approximately $113,000 and $15,000 are payable to the General Partner for the 1994 and 1995 acquisitions, respectively.

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. The agreement provided for the Company and these affiliates to relocate their offices to an adjacent building also owned by the landlord which relocation occurred in September 1995. 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. The prior lease, which was terminated, provided for approximately 6,900 square feet at an annual rental of $155,000. During the year ended December 31, 1995, the affiliates reimbursed the Company approximately $15,000 for rent in connection with the new lease.

   In addition, the Company and an affiliate received a lease termination fee of $350,000 which has been allocated $175,000 to the Company and $175,000 to the affiliates. Such allocations and terms of the sublease were approved by the Audit Committee of the Board of Directors of the General Partner.

c. The Company was reimbursed by an affiliate of the General Partner for payroll and certain overhead expenses related to certain employees of the Company who provided services on a part-time basis in the amount of approximately $86,000 for the year ended December 31, 1995. Such reimbursements were approved by the Audit Committee of the Board of Directors of the General Partner.

4. REAL ESTATE LEASED TO OTHERS ACCOUNTED FOR UNDER THE FINANCING METHOD

Real estate leased to others accounted for under the financing method is summarized as follows:

	December 31,	
	1995	1994
Minimum lease payments receivable	$378,482,993	$446,943,110
Unguaranteed residual value	156,165,105	171,636,874
	534,648,098	618,579,984
Less unearned income	253,115,569	304,319,198
	$281,532,529	$314,260,786

The following is a summary of the anticipated future receipts of the minimum lease payments receivable at December 31, 1995:

Year ending December 31,	Amount
1996	$ 35,065,918
1997	35,035,181
1998	34,962,271
1999	34,072,193
2000	32,686,620
Thereafter	206,660,810
	$ 378,482,993

At December 31, 1995, approximately $213,771,000 of the net investment in financing leases was pledged to collateralize the payment of nonrecourse mortgages payable.

5. REAL ESTATE LEASED TO OTHERS ACCOUNTED FOR UNDER THE OPERATING METHOD

Real estate leased to others accounted for under the operating method is summarized as follows:

	December 31,	
	1995	1994
Land	$ 57,739,747	$ 57,411,117
Commercial building	119,887,821	112,762,861
	177,627,568	170,173,978
Less accumulated depreciation	47,085,019	46,735,534
	$ 130,542,549	$ 123,438,444

As of December 31, 1995 and 1994, accumulated depreciation on the hotel operating properties (not included above) amounted to approximately $2,321,000 and $1,499,000, respectively (see Note 7).

The following is a summary of the anticipated future receipts of minimum lease payments under noncancelable leases at December 31, 1995:

Year ending December 31,	Amount
1996	$ 13,069,184
1997	11,235,481
1998	10,041,376
1999	8,718,524
2000	6,779,083
Thereafter	26,144,426
	$ 75,998,074

At December 31, 1995, approximately $95,147,000 of real estate leased to others was pledged to collateralize the payment of nonrecourse mortgages payable.

6. MORTGAGES AND NOTE RECEIVABLE (See Note 2)

Collateralized by Property Tenanted by	Interest Rate	Balance Maturity Date	Monthly at Maturity	Payment Amount	Balance at December 31, 1995	Balance at December 31, 1994
Gino's Inc. and Foodarama Supermarkets, Inc.	8.051%	1/92	1,005,237	- (a)	$ 96,938	462,712
Hardee's Food Systems, Inc.	9.00 (b)	11/05	-	735 (b)	153,460	153,460
Bank of Virginia	9.00 (c)	1/06	847,902	1,436 (c)	347,739	341,955
Best Products Co., Inc.	9.00 (d)	9/01	-	- (d)	224,704	249,170
Data 100 Corp.	9.00	12/10	-	9,589	946,406	974,890
	11.6087	12/19	-	- (e)	516,664	496,230
Easco Corp.	8.875	2/97 (f)	3,586,940	27,800 (f)	3,515,824	3,536,384
Winchester Partnership	9.00	11/01	-	33,857	1,858,525	2,086,289
Queens Moat Houses, P.L. C. (Note receivable)	Variable (g)	12/00	9,838,819 (g)	- (g)	7,396,107	-
					$15,056,367	8,301,090

(a) See Note 14a.

(b) 5.75% is paid currently and 3.25% is deferred. The principal and deferred interest is payable in monthly installments from March 1999 until November 2005.

(c) 4.5% is paid currently and 4.5% is deferred until maturity.

(d) Payments are $46,931 through November 1, 1996 and $54,276 through September 1, 2001.

(e) Interest only will accrue until December 1, 2010; commencing January 1, 2011, monthly payments of $39,035 will be due, which will self-amortize the outstanding principal and current and deferred interest, with the final payment due December 1, 2019. Increased rentals on the property, if any, during the renewal term of the underlying lease will be applied against accrued interest and then the outstanding principal.

(f) On January 16, 1992, the purchase money mortgage was amended. The maturity date was extended to November 1994 and the monthly payments decreased to $27,800 commencing February 1, 1992. Under the terms of the amendment, the maturity date has been further

extended to February 1997 to coincide with Easco's renewal of its lease for an additional ten years.

(g) On August 15, 1995, the Company invested approximately $7.1 million in a note receivable by purchasing a portion (approximately 1.85%) of an unsecured Senior Term Facility Agreement ("Facility Agreement"). The borrower is Queens Moat Houses P.L.C. ("Queens Moat") and certain subsidiaries. Queens Moat is a United Kingdom based hotel operator with properties in the U.K., Germany, Netherlands, France and Belgium. The Company purchased its participation portion from Lazard Freres & Co. LLC, defined as a Priority Lender in the Facility Agreement, at 71.75% of the face amount of the Company's pro rata portion of the Facility Agreement's outstanding senior advances on the acquisition date. The Facility Agreement's advances are denominated in Pounds Sterling, Deutsche Marks, Dutch Guilders, Belgian Francs and French Francs. The discount at acquisition date, based on the then existing spot rate, was approximately $2.8 million. The Facility Agreement matures December 31, 2000 and bears interest at LIBOR (London Interbank Offered Rate) plus 1.75% per annum for the relevant currencies. Interest will accrue from July 1, 1995 to June 30, 1996 which will then be

due and payable to the Company. Subsequent to June 30, 1996 interest periods and payments can vary from one month to two, three or six months at the discretion of the borrower. There are scheduled payments of the advances over the term of the loan. In addition, repayments are required when certain underlying assets are sold. During the year ended December 31, 1995, these repayments totalled approximately $102,000.

The discount at acquisition date will be amortized on a straight-line basis over the term of the Facility Agreement. For the year ended December 31, 1995, approximately $225,000 of discount was amortized. In accordance with accounting policy, foreign exchange gains and losses will be recorded each quarter based on the prevailing exchange rates at each balance sheet data. Foreign exchange gains of approximately $158,000 have been recognized and are included in "Other Income" for the year ended December 31, 1995.

The Company has generally not recognized any profit in connection with the property sales in which the above purchase money mortgages receivable were taken back. Such profits are being deferred and will be recognized when the principal balances on the purchase money mortgages are received since profit recognition was not allowed under generally accepted accounting principles at the time of sale.

7. SIGNIFICANT PROPERTY TRANSACTIONS

Information on significant property transactions during the three-year period ended December 31, 1995 is as follows:

a. On March 27, 1991, The Public Building Commission of Chicago ("Public Building Commission") commenced a condemnation proceeding against a property leased by The TJX Companies, Inc. The condemnation proceeding was settled on March 12, 1993 when the Company received approximately $4,305,000 from the tenant who purchased the property in accordance with their lease obligations. A net gain of approximately $1,575,000 was recognized on this transaction in the year ended December 31, 1993.

b. On September 16, 1991, the Company brought suit against Alco Standard Corporation and its affiliates, a former tenant of an industrial facility locate in Rome, Georgia whose lease expired in October 1990. The action was brought against the defendants in the United States District Court Northern District of Georgia, Rome Division for reimbursement of costs that could be incurred

for clean-up of hazardous materials on the site and certain deferred maintenance. In July 1994, this litigation was settled and the property was sold for $525,000. A gain of approximately $100,000 was recognized in the year ended December 31, 1994. In addition, Alco reimbursed the Company for $150,000 of expenses incurred and indemnified the Company against any future liability in connection with any site contamination. The expense reimbursement has been included in "Property expenses" in the financial statements for the year ended December 31, 1994.

c. On September 27, 1991, Days Inn of America, Inc. ("Days Inn") a tenant of a property owned by the Company, located in Atlanta, Georgia, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The tenant, by order of the Bankruptcy Court, rejected the lease effective July 31, 1992. The Company submitted a claim to the Bankruptcy Court and in August 1993, it reached a settlement of this claim against Days Inn, now known as Buckhead America Corporation ("Buckhead"). As a result, the Company has received cash in the amounts of approximately $104,000, $184,000 and $730,000 in the years ended December 31, 1995, 1994 and 1993, respectively. In addition, stock in Buckhead valued at approximately $28,000 and $305,000 was received in the years ended December 31, 1995 and 1993, respectively. The total of the above amounts of approximately $132,000, $184,000 and

$1,035,000 have been included in "Other income" for the years ended December 31, 1995, 1994 and 1993, respectively. The Buckhead stock received in 1993 was disposed of in 1994 with a nominal gain.

Effective August 1, 1992, the Company engaged a management company to perform on-site and supervisory and management services. The lease rejection has adversely impacted operating cash flow by approximately $110,000 per month. In addition, the Company expects to incur costs of approximately $2,600,000, as leases are executed to renovate, build-out and re-lease the property.

d. On July 14, 1992, Integra, a Hotel and Restaurant Company ("Integra"), which leased two hotel properties located in Miami, Florida and Phoenix, Arizona filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code. The tenant's petition, previously filed with the Bankruptcy Court, to reject the aforementioned leases, was approved on August 7, 1992, and the Company assumed operation of the properties on that date. The Company has submitted a claim to the Bankruptcy Court.

At December 31, 1995, the property located in Miami Florida has a carrying value of approximately $5,475,000 and is unencumbered by any mortgages. This property is subject to a ground lease. Based on current conditions, management believes the carrying value of the Miami property is reasonably stated.

At December 31, 1995, the property located in Phoenix, Arizona has a carrying value of approximately $7,888,000 and is encumbered by a nonrecourse mortgage payable of approximately $3,255,000. This mortgage was refinanced during the year ended December 31, 1994 (see Note 8e). Based on current conditions, the management believes the carrying value of the Phoenix property is reasonably stated.

During the year ended December 31, 1993, the Company completed major renovations at the Miami and Phoenix Holiday Inns with capital expenditures totaling approximately $1,700,000 and $400,000, respectively. In connection with these renovations, approximately $250,000 of nonrecurring maintenance expenses were incurred at the Miami location. These expenses were included in

hotel operating expenses for the year ended December 31, 1993. During the year ended December 31, 1995, additional capital expenditures of approximately $162,000 and $368,000 were incurred at the Miami and Phoenix Holiday Inn's, respectively. During the year ended December 31, 1994 approximately $190,000 and $240,000 were incurred at the Miami and Phoenix properties, respectively.

The Company entered into a management agreement for the operation of the hotels with a national management organization. Since August 7, 1992, the hotels have been classified as Hotel Operating Properties and their revenues and expenses separately disclosed in the Consolidated Statements of Earnings. Net hotel operations (hotel operating revenues less hotel operating expenses) totalled approximately $2,131,000, $1,781,000 and $1,195,000 for the years ended December 31, 1995, 1994 and 1993, respectively. This was approximately $29,000, $379,000 and $965,000 less than the rent would have been from the rejected leases for the years then ended, respectively. Hotel operating expenses include all expenses except for approximately $822,000, $776,000 and $509,000 of depreciation and $339,000, $456,000 and $742,000 of interest expense for the years ended December 31, 1995, 1994 and 1993, respectively. These amounts are included in their respective captions in the Consolidated Statements of Earnings. The results for the year ended December 31, 1995 are not necessarily indicative of future operating results.

e. On July 31, 1992, Chipwich, Inc. ("Chipwich"), parent of Peltz Food Corporation, a tenant in a property owned by the Company filed a voluntary petition for reorganization

pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. Chipwich then filed a motion for rejection of the lease and, pursuant to an order of the Bankruptcy Court, the lease was rejected on September 29, 1992. There was a guarantor of the lease and the Company settled its claim against the guarantor.

In 1995, the guarantor paid the company $2,200,000 in full satisfaction of its leasehold obligation which, net of related costs, resulted in approximately $2,034,000 of "Other income" in the year ended December 31, 1995. The company reclassified this property to "Property held for sale" and reduced its carrying value to net realizable value by recording a provision for loss on real estate of $611,552 in the year ended December 31, 1995.

f. During 1992, leases on two properties formerly tenanted by Petrolane, Inc. located in Belle Chasse, LA and Nisku, Alberta, Canada, expired and were re-let at rents substantially less than the previous leases. As a result, the Company previously recorded provisions for loss on real estate in the year ended December 31, 1992. In addition, after further evaluation and review, the Company believed the Belle Chasse property's carrying value at June 30, 1994 to exceed the recoverable value in the amount of $237,000. As a result, the Company recorded a provision for loss on real estate in the amount of $237,000 for the year ended December 31, 1994.

In September 1995, the Company sold the property located in Belle Chasse, LA to the current tenant pursuant to a purchase option for $575,000. A gain of approximately $116,000 was recorded in the year ended December 31, 1995. In December 1995, the properly located in Nisku, Alberta, Canada was sold to the current tenant for a sale price of approximately $730,000. A gain of approximately $6,000 was recorded in the year ended December 31, 1995.

g. On December 9, 1991, Stop N Go Markets of Texas, Inc. (National Convenience Stores, Inc.) filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the

Bankruptcy Code. The tenant, who previously leased twenty-three locations, filed a motion with the Bankruptcy Court to assume four leases and reject the remaining leases. Pursuant to a stipulation by the Bankruptcy Court on February 4, 1993, the tenant's motion was approved effective as of August 31, 1992. On March 19, 1993, the Company filed a proof of claim with the Bankruptcy Court. In November 1993, the Company received stock of the debtor valued at approximately $123,000 in partial settlement of its claim. This total has been included in "Other income" for the year ended December 31, 1993. In April of 1995 and May of 1994 additional stock of the debtor was received. The total value of the stock at December 31, 1995 of $120,000 is based on the lower of cost or market. In January 1996, the entire NCS stock was sold pursuant to a tender offer for proceeds totaling $364,500. A gain of approximately $245,000 will be recognized in the three months ending March 31, 1996.

In 1994, all four of the leased locations were sold. The remaining nineteen properties, whose rents totaled approximately $217,000 per year, were actively marketed for sale by the Company. During the years ended December 31, 1994 and 1993, the Company sold ten and nine of these locations, respectively. A nominal gain was recognized on the disposal of all twenty-three properties.

h. On November 2, 1992, the Company purchased approximately fifteen acres of land in East Syracuse, New York for approximately $3,500,000 and contracted to build a 116,000 square foot BJ's Warehouse Store ("BJ's") upon the site. The Company has entered into a twenty year lease with Waban, Inc. ("Waban"), the parent company of BJ's Warehouse Club. Construction was substantially completed on May 22, 1993 and Waban took possession of the premises, which is situated on approximately ten acres of land, and

commenced rental payments on that date. The lease provides for an initial annual net rental of $659,262 with CPI increases every five years, not to exceed 8.77%. Under the lease, Waban is responsible for any required structural repairs. Of the remaining five acres of adjacent land approximately 3.6 acres is available for future development by the Company.

Simultaneously with the acquisition of the property, the Company entered into a general construction contract with the seller (the "GC Agreement") pursuant to which the seller (the "Seller") was required to construct BJ's in accordance with the terms and conditions of the lease for a guaranteed maximum amount of $2,327,802. However, the construction of BJ's was subject to delays and the Seller did not meet all of its construction obligations under the GC Agreement and failed to cure such defaults. The Company sent a notice, dated February 19, 1993, terminating the GC Agreement and assumed the construction obligations. The Company contacted the surety of the GC Agreement pertaining to the site work. The surety was not responsive to the Company. The Company has determined at this point to not pursue any potential claims it may have because after further investigation, it believes such claims will not be able to be satisfied.

At December 31, 1995, the BJ's land, including related improvements, cost a total of approximately $4,877,000 and the building cost a total of approximately $3,421,000. The carrying value of this property at December 31, 1995 is approximately $8,016,000 and is encumbered by a nonrecourse mortgage payable of approximately $3,813,000. The adjacent land available for future development, including related improvements, cost a total of approximately $1,244,000. Approximately $210,000 of interest was capitalized during the year ended December 31, 1993.

A reinvestment incentive fee was paid in 1994 to the General Partner of approximately $45,000 pertaining to this acquisition and development.

The Company received permanent financing of $4,000,000 on the BJ's parcel and improvements in October 1993. (see Note 8a).

i. At December 31, 1992, the Company owned fifteen properties tenanted by Nationsbank, formerly NCNB National Bank of South Carolina. The leases on fourteen of these properties expired in December 1992 and one expired in March 1993; however, nine leases were extended to March 1993 in connection with an executed agreement (the "Agreement") entered into between the Company and the tenant to purchase and/or lease any one or more of ten locations, including the property whose lease expired in March 1993. The tenant elected to purchase four and lease six properties in accordance with the Agreement. The four properties which were sold on March 26, 1993 had a carrying value of approximately $4,357,000 and were unencumbered by any mortgage at December 31, 1992. Since the contracted selling price of approximately $5,300,000 exceeded the carrying value, the Company believed the assets were fairly stated. The six leased locations were re-let at an annual rental of approximately $214,000, a reduction of approximately $196,000 from the previous rent. As a result, the Company wrote the properties down by incurring a provision for loss on real estate for the year ended December 31, 1992. At December 31, 1995, these properties have a carrying value of approximately $2,031,000 and are unencumbered by any mortgage.

Of the remaining five properties whose leases were not extended, one was sold on January 20, 1993. Another property, whose carrying value at December 31, 1992 was $357,000 was written down by incurring a provision for loss on real estate in the amount of $182,000 in the three months ended March 31, 1993 and subsequently sold on April 15, 1993. The other three properties were sold during the year ended December 31, 1994.

j. On January 26, 1993, Be-Mac Transport Company, Inc. ("Be-Mac"), a tenant in a property owned by the Company, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. Be-Mac then filed a motion for rejection of the lease and, pursuant to an order of the Bankruptcy Court, the lease was rejected on February 24, 1993. There was a guarantor of the lease and the Company settled its unsecured proof of claim filed by the Company for $377,000 in May 1995. As a result, approximately $331,000, net of related costs, of "Other income" was recognized in the year ended December 31, 1995. Based on the purchase option price contained in the rejected lease, the Company wrote the property down by incurring a provision for loss on real estate in the amount of $196,000 in the year ended December 31, 1993. At December 31, 1995, the property has a carrying value of $927,000 and is unencumbered by any mortgage. The Company re-let the property effective March 1, 1994 at an annual rental of $120,000.

k. On July 31, 1993, the Company held a nonrecourse mortgage in the amount of approximately $3,456,000 secured by four properties tenanted by Toys "R" Us, Inc. The mortgage had been taken back by a Predecessor Partnership in connection with the sale of such properties. The tenant remained current in its obligations under the lease. The terms of the mortgage called for a balloon payment of approximately $3,456,000 on January 1, 1993 which was not received. The Company reacquired these properties in satisfaction of such mortgage and as of August 1, 1993 real estate with a carrying value of approximately $5,883,000 and a nonrecourse mortgage payable with a balance of approximately $2,904,000 were

recorded. No gain or loss resulted upon foreclosure because the estimated fair value of the properties exceeded their carrying value. These properties have a carrying value of approximately $5,734,000 and are encumbered by a nonrecourse mortgage payable of approximately $3,235,000 at December 31, 1995. See Note 8d concerning the mortgage refinancing in 1994.

l. On December 31, 1992, the Company held four nonrecourse wrap-around mortgages in the amount of approximately $7,689,000 secured by four properties tenanted by The Wickes Corp. The mortgages had been taken back by a Predecessor Partnership in connection with the sale of such properties. The tenant remained current in its obligations under the lease. However, the Company did not receive monthly debt service payments on these mortgages from the purchaser. Additionally, the terms of mortgages called for balloon payments of approximately $7,689,000 on January 1, 1993 which were not received. However, the tenant had previously purchased one property from the debtor and in January 1993, the tenant paid the balloon mortgage due on the property net of the underlying first mortgage, which it assumed. A gain of approximately $1,371,000 was recognized on this transaction in the year ended December 31, 1993.

In addition, the debtor paid the balloon mortgage due on one property, net of the underlying first mortgage in August of 1993. A gain of approximately $784,000 was recognized in the year ended December 31, 1993.

In January 1994, the debtor paid the balloon mortgage due, net of the underlying first mortgage, on one Wickes property and a gain of approximately $1,238,000 was recognized in the year ended December 31, 1994. In addition, the Company foreclosed on the remaining Wickes property in January 1994 and real estate with a carrying value of approximately $643,000 was recorded in the year ended December 31, 1994. No gain or loss was incurred upon foreclosure because the estimated fair value of the property is equal to its carrying value. The mortgage balance on this remaining property is approximately $538,000 at December 31, 1995.

m. On June 17, 1993, the Company purchased two non-performing mortgage loans for a combined price of $13,000,000. Each loan was collateralized by a residential apartment complex located in Lexington, Kentucky. The face value of the non-performing loans was approximately $21,188,000.

The first non-performing loan, purchased for $6,990,000, was collateralized by a 396 unit multi-family complex. The Company foreclosed on this property ("Stoney Falls"), and received the deed on October 11, 1993. The Company has entered into a management agreement for the operation of this property with a national management organization which began operating the property effective September 1, 1993. Subsequent to the acquisition, the Company received distributions from the receiver and cash flow from the property pertaining to the period prior to formal foreclosure, net of expenditures incurred by the Company, which have been applied as a reduction to the initial cost of the loan. This net cash flow, subsequent to the acquisition, totalled approximately $94,000. During the year ended December 31, 1994, the Company completed major renovations which totalled approximately $1,360,000. In connection with these renovations, approximately $350,000 of non recurring maintenance expenses where incurred. These expenses are included in "Property expenses" for the year ended December 31, 1994. During the year ended December 31, 1995, approximately $267,000 of capital expenditures were incurred. This asset has a carrying value of approximately $8,132,000 and is encumbered by a nonrecourse mortgage payable of approximately $5,438,000 at December 31, 1995.

The second non-performing loan, purchased for $6,010,000, is collateralized by a 232 unit apartment complex. Foreclosure proceedings were initiated in April 1993 resulting in the debtor filing for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The Company executed an agreement with the borrower, which was approved by the Bankruptcy Court, and foreclosed on this property ("Stoney Brooke") and received the deed on February 11, 1994. Subsequent to the acquisition, the Company received distributions from the seller of the note and began to receive cash flow

from the property pertaining to the period prior to formal foreclosure, net of expenditures incurred by the Company, which have been applied as a reduction to the initial cost of the loan. This cash flow, net of expenditures incurred by the Company, totalled approximately $735,000. This property at December 31, 1995 has a carrying value of approximately $5,130,000 and is encumbered by a nonrecourse mortgage payable of approximately $4,449,000.

A reinvestment incentive fee of approximately $65,000 was paid to the General Partner in 1994. (See Note 3).

See Note 8f in connection with the mortgage financing of these two properties in 1994.

n. In March 1994, the Company foreclosed on the property tenanted by Webcraft Technologies and KSS Transportation. As a result, real estate with a carrying value of approximately $626,000 was recorded in the year ended December 31, 1994. No gain or loss was incurred upon foreclosure because the estimated fair value of the property is believed to exceed its carrying value.

o. In June 1994, the Company sold a property to the tenant, Lockheed Sanders, Inc. The property, which was located in Plainfield, N.J., was subject to a purchase option which was exercised. The selling price was $5,625,000 and a gain of approximately $1,961,000 was recognized in the year ended December 31, 1994. The property was unencumbered by any mortgage.

p. The Company entered into two joint ventures in June 1994 with unaffiliated co-venturers for the purpose of developing luxury garden apartment complexes. Both of these joint ventures have been consolidated in the accompanying financial statements.

1. The first joint venture, formed as an Alabama Limited Liability Company, developed a 240 unit multi-family project situated on approximately twenty acres, currently owned by the joint venture, located in Hoover, Alabama, a suburb of Birmingham. The Company, which owns a seventy percent (70%) majority interest in the joint venture, contributed $1,750,000 in June 1994 and the co-venturer contributed $250,000. As of December 31, 1995 and 1994 approximately $220,000 and $250,000, respectively, representing the minority interest of the co-venturer has been included in "Accounts payable, accrued expenses, and other liabilities" in the accompanying financial statements. Distributions will be made in proportion to ownership interests. The co-venturer will be credited with $500,000 of additional capital in lieu of receiving a general contractor's fee. Permanent financing has been obtained by the joint venture in the amount of $8,860,000 of which $360,000 is guaranteed by the

co-venturer and personally by its principals. The Company funded approximately $140,000 of $200,000 of approved additional improvements with the co-venturer funding the balance. The complex was completed in September 1995, and all rental units were available for occupancy. As of February 1996, approximately 83% of the units are leased. The development totalled approximately $10,889,000, including the acquisition of land valued at approximately $1,138,000. An affiliate of the Company's co-venturer is managing the property.

For the year ended December 31, 1995, net rental operations resulted in a loss of approximately $301,000, including approximately $289,000 of depreciation and amortization, before consideration of the co-venturer's minority interest in such loss of approximately $90,000.

A reinvestment incentive fee of approximately $38,000 is due the general partner upon completion of the project (see Note 3).

2. The second joint venture, a Delaware limited partnership, is developing a 288 unit multi-family project situated on approximately thirty-three acres in Cary, North Carolina (Raleigh-Durham area). The Company, which owns a ninety percent (90%) majority interest in the partnership, has contributed approximately $4,022,000 as of December 31, 1995 and is a limited partner. The Company has fulfilled its contribution obligation. The co-venturer is the general partner and has a limited partner interest. The Company is entitled to a cumulative annual preferred return of 12% on its investment before cash distributions are made in proportion to ownership interests. Construction financing has been obtained by the joint venture in the amount of $12,205,000 and is guaranteed by the joint venture general partner and personally by its principals. The development costs are expected to total approximately $16,100,000. As of December 31, 1995, approximately $12,216,000 of development costs have been incurred of which approximately $6,988,000 represents completed rental units, including the acquisition of land valued at $1,600,000. Construction loan funding at December 31, 1995 was

approximately $7,834,000. The first units were available for occupancy in October 1995 and project completion is scheduled for July 1996. As of March 1996, approximately 29% of the rental units are leased. An affiliate of the Company's co-venturer is managing the property.

For the year ended December 31, 1995, net rental operations resulted in a loss of approximately $115,000, including approximately $87,000 of depreciation and amortization.

A reinvestment incentive fee of approximately $70,000 will be due the Company's general partner upon completion of the project (see Note 3).

q. On February 1, 1995, the Penske Corp. exercised its purchase option on three properties leased from the Company (two in New Jersey and one in New York). The selling price was approximately $4,535,000 and a gain of approximately $1,003,000 was recognized in the year ended December 31, 1995. Each property was encumbered by first and second mortgages which totalled approximately $1,152,000 and which were paid from the sales proceeds.

r. On March 24, 1995, the Company sold the property tenanted by Pace Membership Warehouse, Inc. in Taylor, Michigan. The selling price was $9,300,000 and a gain of approximately $3,307,000 was recognized in the year ended December 31, 1995. The property was encumbered by a nonrecourse mortgage payable of approximately $4,346,000 which the purchaser assumed.

s. On May 18, 1995, the Company purchased approximately 248 acres of partially improved land located in Armonk, New York. The purchase price was approximately $3,044,000. The Company intends to construct approximately 45 to 50 single-family detached luxury homes subject to subdivision and other required approvals. No material development costs have yet been incurred.

A reinvestment incentive fee of approximately $15,000 is payable to the Company's general partner (see Note 3).

t. On June 28, 1995, General Signal Technology Corporation, a tenant of a property located in Andover, Massachusetts exercised its rights under the lease to purchase the property. The selling price was approximately $19,808,000 and a loss of approximately $125,000 was recognized in the year ended December 31, 1995. The property was encumbered by two nonrecourse mortgages payable which totalled approximately $10,670,000 and were paid from the sales proceeds.

8. MORTGAGES PAYABLE

At December 31, 1995, mortgages payable, all of which are nonrecourse to the Company, are summarized as follows:

Number of Mortgages	Range of Interest Rates	Range of Maturities	Annual Principal and Interest Payment	Balance at December 31, 1995	1994
21	6.000% - 8.875%	5/31/96 - 6/1/17	$ 9,828,897	$ 71,926,694	$ 59,351,878
49	9.000 - 10.875	1/31/96 - 12/1/09	13,657,592	88,055,516	106,344,848
4	11.500 - 12.250	1/31/96 - 11/1/05	744,262	3,985,351	4,235,589
-	14.250		-	-	4,163,382
			$24,230,751	$163,967,561	$174,095,697

The following is a summary of the anticipated future principal payments of the mortgages:

Year ending December 31,	Amount
1996	$ 25,384,587
1997	14,080,407
1998	8,472,174
1999	17,236,691
2000	12,127,642
2001 - 2005	63,631,953
2006 - 2010	20,112,900
2011 - 2015	2,884,377
2016 - 2017	36,830
	$ 163,967,561

a. On October 18, 1993, the Company obtained permanent financing on the BJ's property in East Syracuse, New York. The nonrecourse loan is in the principal amount of $4,000,000, bears interest at 8.25% per annum, and matures October 31, 1998 at which time the Company has the option to extend the loan for one to five years, providing certain conditions are met. The monthly debt service is

approximately $34,000. Debt placement costs of approximately $156,000 have been incurred.

b. On December 13, 1993, the Company prepaid a mortgage with an outstanding balance of $3,038,346 that encumbered a property tenanted by the Lockheed Corporation, located in Burbank, CA. This mortgage was scheduled to mature on February 1, 1996 and bore interest at 16%. Prepayment penalties of approximately $91,000 were incurred.

c. On December 22, 1993, the Company refinanced a nonrecourse mortgage loan which had an outstanding principal balance of approximately $7,613,000. This mortgage encumbered a property tenanted by Super Foods Services, Inc. It was scheduled to mature on October 1, 2010 and bore interest at 11.076%. The new mortgage loan which is self-liquidating is in the principal amount of $7,650,000, bears interest at 8.25% per annum, and matures August 1, 2010. Debt placement costs of approximately $333,000 and prepayment penalties of approximately $76,000 were incurred. The new annual debt service of approximately $846,000 reflects a decrease of $156,000 and initial interest savings of approximately $215,000 in 1994.

d. On March 4, 1994, the Company paid off one nonrecourse mortgage loan and refinanced two nonrecourse mortgage loans that encumbered a total of seven properties tenanted by Toys "R" Us. The loan paid off, which encumbered one property, had an outstanding principal balance of approximately $616,000, bore interest at 10.375%, and was callable at the lender's option in 1994. The two loans refinanced had outstanding principal balances of approximately $1,550,000 and $2,863,000, bore interest at 9.25% and 9.55%, were self-liquidating, and were callable at the lender's option in 1995 and 1996, respectively. The two new mortgage loans, in the principal amounts of approximately $1,464,000 and $3,636,000, bear interest at 7.08%, are self-liquidating and mature January 15, 2012. Debt placement costs of approximately $226,000 have been incurred. The new annual debt service of approximately $532,000 reflects a decrease of approximately $89,000.

e. A balloon payment of approximately $6,266,000 was originally due June 1, 1994 on a nonrecourse mortgage which encumbered the Holiday Inn in Phoenix, Arizona; however, the Company paid off approximately $2,966,000 on that date and was granted an extension on the remaining balance. The interest rate was 10.75%. On June 27, 1994 the Company refinanced the remaining balance with a nonrecourse mortgage loan in the amount of $3,300,000. The new mortgage loan matures July 27, 1999, bears interest at 10.35% and has a balloon payment due at maturity of approximately $3,120,000. Debt placement costs of approximately $143,000 were incurred. The new annual debt service is approximately $370,000.

f. On July 25, 1994 the Company obtained financing on the two apartment complexes located in Lexington, Kentucky. The two nonrecourse mortgage loans in the amount of $5,500,000 and $4,500,000 for Stoney Falls and Stoney Brooke Apartments, respectively, bear interest at 8.375% and mature in ten years when balloon payments totaling approximately $8,150,000 will be due. Under the terms of the loans, $100,000 was initially funded on each loan with the balance funded in January 1995. Debt placement costs of approximately $250,000 have been incurred. Annual debt service on the two loans is approximately $956,000.

g. On December 9 and 23, 1994, the Company prepaid the first and second mortgages, respectively, with aggregate outstanding balances of approximately $3,364,000 which encumbered a property tenanted by Chomerics, Inc. located in Woburn, Massachusetts. The first and second mortgages were scheduled to mature August 1, 2011

and February 1, 2005, respectively, and both bore interest at 13.875%. The first mortgage was callable August 1, 1996.

9. SENIOR INDEBTEDNESS

On May 27, 1988, the Company closed a $50,000,000, 10-year senior unsecured debt financing. The notes bear interest at 9.6%, payable semiannually, 2% of which may be deferred and added to the principal at the Company's option during the first five years. During 1993 $546,842 was added to the principal of the note. In May 1994 and 1995, the Company repaid $10,000,000 and approximately $11,308,000 of the outstanding principal balance of the notes, respectively. The Company is required to make principal repayments of approximately $11,308,000 in each of the years 1996 through 1998.

The note agreements also place limitations on the Company with respect to, among other things, additional debt and the use of proceeds from property sales. In addition, distributions and the amounts used to purchase partnership interests cannot exceed cash flow, as defined in the agreements, plus $15,000,000. The Company is also required to maintain, among other things, specified levels of (i) net annual rentals, as defined in the agreements, on properties

unencumbered by mortgage financing and (ii) net cash flow.

10. RIGHTS OFFERING

A registration statement relating to the Rights Offering was filed with the Securities and Exchange Commission and declared effective February 23, 1995.

On March 1, 1995, the Company issued to record holders of its Depositary Units one transferable subscription right (a "Right"), for each seven Depositary Units of the Company held on February 24, 1995, the record date. The Rights entitled the holders thereof (the "Rights Holders") to acquire during the subscription period at a subscription price of $55, six Depositary Units and one 5% cumulative pay-in-kind redeemable preferred unit representing a limited partner interest ("Preferred Units"). The subscription period commenced on March 1, 1995 and expired at the close of business on March 30, 1995.

The Preferred Units have certain rights and designations, generally as follows. Each Preferred Unit will have a liquidation preference of $10.00 and will entitle the holder thereof to receive distributions thereon, payable solely in additional Preferred Units, at the rate of $.50 per Preferred Unit per annum (which is equal to a rate of 5% of the liquidation preference thereof), payable annually on March 31 of each year (each, a "Payment Date"), commencing March 31, 1996. On any Payment Date commencing with the Payment Date on March 31, 2000, the Company with the approval of the Audit Committee of the Board of Directors of the General Partner may opt to redeem all, but not less than all, of the Preferred Units for a price, payable either in all cash or by issuance of additional Depositary Units, equal to the liquidation preference of the Preferred Units, plus any accrued but unpaid distributions thereon. On March 31, 2010, the Company must redeem all, but not less than all, of the Preferred Units on the same terms as any optional redemption.

1,975,640 Rights were issued in the Rights Offering of which 418,307 were exercised. 190,554 Depositary Units and 31, 759 Preferred Units were subscribed for through the exercise of the Over-Subscription Privilege by Rights Holders other than High Coast Limited Partnership ("High Coast"), a Delaware limited partnership.

High Coast acted as guarantor for the Rights Offering and is an affiliate of Carl C. Icahn, ("Icahn"), the Chairman of American Property Investors, Inc., ("API"), the general partner of the Company. API is also the

general partner of the guarantor and the two limited partners are affiliates of and are controlled by Icahn. Pursuant to its subscription guaranty, High Coast oversubscribed for a total of 9,343,998 Depositary Units and 1,557,333 Preferred Units. As a result, the Rights Offering was fully subscribed. The proceeds received by the Company, after deduction of expenses of approximately $1.1 million incurred by the Company in connection with the Rights Offering, were approximately $107.6 million.

In addition, in accordance with the terms of the Company's and its subsidiary's partnership agreements, API was required to contribute $2,206,242 in order to maintain its aggregate 1.99% general partnership interest.

On April 12, 1995, the Company received $108,660,200, the gross proceeds of the Rights Offering, from its subscription agent and $2,206,242 from API. The Company issued 1,975,640 Preferred Units and an additional 11,853,840 Depositary Units. Trading in the Preferred Units commenced March 31, 1995 on the New York Stock Exchange ("NYSE") under the symbol "ACP PR". The Depositary Units trade on the NYSE under the symbol "ACP".

As of March 6, 1996, High Coast owns 1,741,688 Preferred Units and 12,991,312 Depositary

Units.

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. The earnings per share calculation for the year ended December 31, 1995 assumes the Depositary and Preferred Units subscribed for in the Rights Offering were outstanding at the beginning of the year. Also, with respect to the year ended December 31, 1995 calculation, net income has been increased by approximately $2,100,000 in accordance with the modified treasury stock method. 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 (see Note 10).

12. RECONCILIATION OF NET EARNINGS PER FINANCIAL STATEMENTS TO TAX REPORTING

	1995	1994	1993
Net earnings per financial statements	$ 35,155,620	$ 23,168,564	$ 22,676,754
Minimum lease payments received, net of income earned on leases accounted for under the financing method	7,204,850	6,708,644	6,066,011
Gain on real estate transactions for tax purposes in excess of that for financial statement purposes	9,739,167	1,325,735	228,436
Provision for loss for financial statement purposes	768,701	582,000	462,000
Difference attributed to joint ventures and minority interest	(85,692)	(29,367)	(25,094)
Difference between expense accruals, net of income accruals, at beginning of year and end of year	(993,688)	(256,431)	584,286

Depreciation and amortization for tax purposes in excess of that for financial statement purposes due to leases accounted for under the financing method	(7,071,152)	(9,532,694)	(9,818,998)
Other	(26,218)	(26,218)	(26,218)
Taxable income	$ 44,691,588	$ 21,940,233	$ 20,147,177

13. QUARTERLY FINANCIAL DATA (UNAUDITED)
(IN THOUSANDS, EXCEPT PER UNIT DATA)

	Three Months Ended			
	March 31,		June 30,	
	1995	1994	1995	1994
Revenues	$ 16,199	$ 15,943	$ 17,234	$ 15,156
Earnings before property transactions	$ 6,155	$ 5,231	$ 7,336	$ 5,030
Provision for loss on real estate	-	(75)	-	(237)
Gains on property transactions	4,321	1,364	(85)	2,236
Net earnings	$ 10,476	$ 6,520	$ 7,251	$ 7,029
Net earnings per limited partnership unit	$.48 (1)	$.46	$.25 (1)	$.50

	Three Months Ended			
	September 30,		December 31,	
	1995	1994	1995	1994
Revenues	$ 19,245	$ 14,750	$ 17,242	$ 15,702
Earnings before property transactions	$ 9,966	$ 4,411	$ 7,376	$ 4,905
Provision for loss on real estate	(611)	(75)	(158)	(195)
Gains on property transactions	176	238	680	336
Net earnings	$ 9,531	$ 4,574	$ 7,898	$ 5,046
Net earnings per limited partnership unit	$.33 (1)	$.32	$.27 (1)	$.36

Net earnings per unit is computed separately for each period and, therefore, the sum of such quarterly per unit amounts may differ from the total for the year.

(1) Includes the issuance of additional Partnership units and equivalent units in 1995.

14. COMMITMENTS AND CONTINGENCIES

a. On December 31, 1995, the Company held a mortgage note receivable in the principal amount of $96,938. The mortgage encumbers one property together with a collateral assignment of the ground lease and rent. The property is tenanted by Gino's. The mortgage had

been taken back by a Predecessor Partnership in connection with the sale of this property and seven other properties. The tenant has remained current in its lease obligations.

The terms of the mortgage called for a balloon payment of $1,100,000 on January 1, 1992 which was not received. On January 9, 1992, the Company gave written notice of default to Sheldon Lowe and Joseph T. Comras, the mortgagors and the current owners at that date of the eight properties. As of December 31, 1995, the Company has commenced

foreclosure action on the Gino's property which is located in Pennsylvania. The Company foreclosed on the property in Michigan on October 7, 1993 and real estate with carrying value of approximately $70,000 was recorded in the year ended December 31, 1993. On February 25, 1994 the Company foreclosed on the previously encumbered property formerly tenanted by Lionel Leisure located in Pennsylvania. In September 1994, this property was sold and no gain or loss was incurred upon disposition. In October 1994, the Company foreclosed on two properties located in Massachusetts and real estate with a carrying value of approximately $102,000 was recorded in the year ended December 31, 1994. During the year ended December 31, 1995, the Company completed foreclosure actions on three properties (one in Pennsylvania and two in New Jersey), tenanted by Gino's and Foodarama. As a result, real estate with a carrying value of approximately $256,000 was recorded. No gain or loss was incurred or is anticipated upon foreclosure because the estimated fair value of the properties exceeds their carrying value.

b. Lockheed Missile and 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.

c. On January 25, 1995, the Grand Union Company, a tenant leasing eight properties owned by the Company, filed a prepackaged voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. These eight properties' annual rentals total approximately $1,450,000 (including two properties which are sublet, representing approximately $58,000 in annual rentals). The tenant is current in its obligations under the lease. The tenant rejected the lease on one property located in Waterford, NY effective July 31, 1995 by order of the Bankruptcy Court on June 6, 1995. The annual rent for this property was approximately $103,000. The Company is now actively marketing this property for sale and believes the property's carrying value of $1,057,149 at December 31, 1995 to exceed its estimated net realizable value by $157,149, for which a

provision for loss on real estate was recorded in the year then ended.

In June 1995, the tenant emerged from Bankruptcy. The tenant affirmed five of the seven remaining leases and allowed the two sub-let property's leases to remain in effect. At December 31, 1995, the carrying value of these seven properties is approximately $11,203,000. One of these properties is encumbered by a nonrecourse mortgage payable of approximately $4,672,000. The Company has filed a proof of claim with the Bankruptcy Court for the rejected lease.

d. 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 December 31, 1995, the carrying value of these four properties is approximately $7,537,000. Two of the properties are encumbered by nonrecourse mortgages payable of approximately $2,031,000.

e. On September 18, 1995, Caldor Corp., a tenant in 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 prepetition rent. 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. At December 31, 1995, the property has a carrying value of approximately $2,005,000 and is unencumbered by any mortgage.

15. PROPERTY HELD FOR SALE

At December 31, 1995, the Company owned seven properties that were being actively marketed for sale. At December 31, 1995, these properties have been stated at the lower of their carrying value or net realizable value. The aggregate value of the properties is estimated to be approximately $1,983,000, after incurring a provision for loss on real estate in the amount of $157,149 in the year ended December 31, 1995 (see Note 14c). At December 31, 1994, the aggregate value of the properties was estimated to be approximately $413,000 after incurring a provision for loss on real estate in the amount of approximately $85,000 in the year then ended.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and Cash Equivalents, Accounts Receivable, Construction Loans Payable, Mortgages Payable and Accounts Payable and Accrued Expenses

The carrying amount of cash and cash equivalents, accounts receivable, construction loans payable, mortgages payable and accounts payable and accrued expenses are carried at cost, which approximates their fair value.

Mortgages Receivable

The fair values of the mortgages receivable past due, in process of foreclosure, or for which foreclosure proceedings are pending, are based on the discounted cash flows of the underlying lease. The fair values of

the mortgages receivable satisfied subsequent to year end are based on the amount of the net proceeds received.

The fair values of the mortgages receivable which are current are based on the discounted cash flows of their respective payment streams.

The approximate estimated fair values of the mortgages receivable held as of December 31, 1995 are summarized as follows:

Collateralized by Property Tenanted by	At December 31, 1995 Net Investment	Estimated Fair Value
Gino's, Inc., and Foodarama Supermarkets, Inc.	$ 36,000	$ 5,000
Hardee's Food Systems, Inc.	51,000	169,000
Bank of Virginia	348,000	419,000
Best Products Co., Inc.	225,000	224,000
Data 100 Corp.	798,000	3,105,000
Easco Corp.	951,000	3,535,000
Winchester Partnership	1,859,000	1,809,000

The net investment at December 31, 1995 is equal to the carrying amount of the mortgage receivable less any deferred income recorded.

Senior Indebtedness

The approximate fair value and carrying value of the Company's senior indebtedness at December 31, 1995 is $34,106,000 and $33,923,000, respectively. The estimated fair value is based on the amount of future cash flows associated with the instrument discounted using the rate at which the Company believes it could currently replace the senior indebtedness.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

17. 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 interest in the various Predecessor Partnerships for limited partnership units of American Real Estate Partners, L.P.

18. SUBSEQUENT EVENTS

a. On January 10, 1996, Rickel Home Centers, Inc., 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. This property's annual rental totals approximately $90,000. 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. The tenant is current in its obligations under the lease.

b. On January 11, 1996, Forte Hotels, Inc. ("Forte") a/k/a Travelodge, a tenant in a property owned by the Company entered

into a Lease Termination and Mutual Release Agreement ("Agreement"). This Agreement terminated the lease, which was due to expire on June 30, 1996, effective January 17, 1996 and required Forte to pay the Company $2,800,000 in consideration of the early lease termination and certain deferred maintenance items. In addition, this property was encumbered by two mortgages. The first mortgage with a principal balance of approximately $84,000 was paid off on January 18, 1996. The

second mortgage with a principal balance of approximately $231,000 was paid off March 1, 1996.

As a result of the above settlement and mortgage payoffs, the Company will recognize "Other income" of approximately $2,700,000, net of related costs, in the quarter ended March 31, 1996. The carrying value of this property at December 31, 1995 is approximately $762,000. The Company believes that the carrying value of the asset is fairly stated at December 31, 1995.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

Item 10. Directors and Executive Officers of AREP.

The names, offices held and the ages of the directors and executive officers of the General Partner are as follows:

Name	Age	Office
Carl C. Icahn	60	Chairman of the Board
Alfred D. Kingsley	53	Director
Mark H. Rachesky	37	Director and Vice President
William A. Leidesdorf	50	Director
Jack G. Wasserman	59	Director
John P. Saldarelli	54	Vice President, Secretary and Treasurer

Carl C. Icahn has been Chairman of the Board of the General Partner since November 15, 1990. He is also President and a Director of Starfire Holding Corporation (formerly Icahn Holding Corporation), a Delaware corporation ("SHC") and Chairman of the Board and a Director of various of SHC's subsidiaries, including ACF Industries, Inc., a New Jersey corporation

("ACF"). SHC is primarily engaged in the business of holding, either directly or through subsidiaries, a majority of the common stock of ACF and its address is 100 South Bedford Road, Mount Kisco, New York 10549. Mr. Icahn has also been Chairman of the Board of Directors of ACF since October 29, 1984 and a Director of ACF since June 29, 1984. ACF is a railroad freight and tank car leasing, sales and manufacturing company. He has also been Chairman of the Board of Directors and President of Icahn & Co., Inc. since 1968. Icahn & Co., Inc. is a registered broker-dealer and a member of the National Association of Securities Dealers. In 1979, Mr. Icahn acquired control and presently serves as Chairman of the Board of Directors of Bayswater Realty & Capital Corp., which is a real estate investment and development company. ACF, Icahn & Co., Inc. and Bayswater Realty & Capital Corp. are deemed to be directly or indirectly owned and controlled by Carl C. Icahn. Mr. Icahn was Chief Executive Officer and Member of the Office of the Chairman of Trans World Airlines, Inc. ("TWA") from November 8, 1988 to January 8, 1993; Chairman of the Board of Directors of TWA from January 3, 1986 to January 8, 1993 and Director of TWA from September 27, 1985 to January 8, 1993. Mr. Icahn also has substantial equity interests in and controls various partnerships and corporations which invest in publicly traded securities.

Alfred D. Kingsley has served as Director of the General Partner since November 15, 1990. He was also Vice Chairman of the Board of Directors of TWA from February 1, 1989

to January 8, 1993 and a Member of the Office of the Chairman from November 8, 1988 to January 8, 1993. Mr. Kingsley was a Director of TWA from September 27, 1985 to January 8, 1993. He also was a Director and Executive Officer and Director of Research at Icahn & Co., Inc. and related entities from 1968 until December 1994. He also has been Vice Chairman of the Board of Directors of ACF since October 29, 1984 and a Director of ACF since June 29, 1984. Mr. Kingsley has also been a Senior Managing Director of Greenway Partners, L.P. since May 1993, which invests in publicly traded securities.

Mark H. Rachesky, M.D. has served as Director of the General Partner since November 15, 1990 and as Vice President since November 29, 1990. Beginning February 1990, Dr. Rachesky acted as a senior investment advisor to Carl C. Icahn and his affiliated companies and shortly thereafter, he became their chief investment officer. Dr. Rachesky is also the sole Managing Director of Starfire Holding Corporation, which is responsible for substantially all of Mr. Icahn's investment activities. Dr. Rachesky has been a director of Samsonite Corporation since June 1993, and is also a director of Culligan Water Technologies, Inc. since its spin-off from Samsonite in August 1995. From August 1993, Dr. Rachesky has served as a director of Cadus Pharmaceutical Corporation. From June 1987 to February 1990, Dr. Rachesky was employed by an affiliate of the Robert M. Bass Group, Inc. where he was involved in financing and investment activity. Dr. Rachesky is a graduate of the Stanford University School of Medicine and School of Business.

William A. Leidesdorf has served as Director of the General Partner since March 26, 1991. Since April 1995, Mr. Leidesdorf has acted as an independent real estate investment banker. From January 1, 1994 through April 1995, Mr. Leidesdorf was Managing Director of RFG Financial, Inc., a commercial mortgage company. From September 30, 1991 to December 31, 1993, Mr. Leidesdorf was Senior Vice President of Palmieri Asset Management Group. From May 1, 1990 to September 30, 1991, Mr. Leidesdorf was Senior Vice President of Lowe Associates, Inc., a real estate development company, where he was involved in the acquisition of real estate and the asset management workout and disposition of business areas. He also acted as the Northeast Regional Director for Lowe Associates, Inc. From June 1985 to January 30, 1990, Mr. Leidesdorf was Senior Vice President and stockholder of Eastdil Realty, Inc., a real estate company, where he was involved in the asset management workout, disposition of business and financing areas. During the interim period from January 30, 1990 through May 1, 1990, Mr. Leidesdorf was an independent contractor for Eastdil Realty, Inc. on real estate matters.

Jack G. Wasserman has served as a Director of the General Partner since December 3, 1993. Mr. Wasserman is an attorney and a member of the New York State Bar and has been with the New York based law firm of Wasserman,

Schneider & Babb since 1966, where he is currently a senior partner.

John P. Saldarelli has served as Vice President, Secretary and Treasurer of the General Partner since March 18, 1991. Mr. Saldarelli was also President of Bayswater Realty Brokerage Corp. from June 1987 until November 19, 1993 and Vice President of Bayswater Realty & Capital Corp. from September 1979 until April 15, 1993, both of which are deemed to be directly or indirectly owned and controlled by Carl C. Icahn.

William Leidesdorf and Jack G. Wasserman are on the Audit Committee of the Board of Directors of the General Partner.

Each of Messrs. Icahn and Kingsley served on the Board of Directors of TWA. On January 31, 1992, TWA filed a petition for bankruptcy in the U.S. Bankruptcy Court in Delaware, seeking reorganization under Chapter 11 of the Bankruptcy Code. In connection therewith, the Pension Benefit Guaranty Corporation asserted that there existed in the TWA defined benefit plans an underfunding deficiency, and that if the Plans were terminated, TWA and all members of the controlled group of which TWA was a member, including the General Partner, would be liable, jointly and severally, for approximately $1.2 billion. On January 8, 1993, TWA, the Pension Benefit Guaranty Corporation, Mr. Icahn and the members of the controlled group, among others, settled all claims and potential claims which they had against each other.

Each executive officer and director will hold office until the next annual meeting of the General Partner and until his or her successor is elected and qualified. Effective June 15, 1993, directors who are not employed by AREP or certain affiliates, receive fees of $3,000 for attendance at each quarterly meeting of the Board of Directors. Mr. Kingsley, Mr. Leidesdorf and Mr. Wasserman each received $12,000 for attendance at meetings in 1995.

Each of the executive officers of the General Partner performs services for other affiliates of the General Partner.

There are no family relationships between or among any of the directors and/or executive officers of the General Partner.

If distributions (which are payable in kind) are not made to the holders of Preferred Units on any two Payment Dates (which need not be consecutive), the holders of more than 50% of all outstanding Preferred Units, including the General Partner and its affiliates, voting as a class, will be entitled to appoint two nominees for the Board of Directors of the General Partner. Holders of Preferred Units owning at least 10% of all outstanding Preferred Units, including the General Partner and its affiliates to the extent that they are holders of Preferred Units, may call a meeting of the holders of Preferred Units to elect such nominees. Once elected, the nominees will be appointed to the Board of Directors of the General Partner by Icahn. As directors, the nominees will, in addition to their other duties as directors, be specifically charged with reviewing all future distributions to the holders of the Preferred Units. Such additional directors shall serve until the full distributions accumulated on all outstanding Preferred Units have been declared and paid or set apart for payment. If and when all accumulated distributions on the Preferred Units have been declared and paid or set aside for payment in full, the holders of Preferred Units shall be divested of the special voting rights provided by the failure to pay such distributions, subject to revesting in the event of each and every subsequent default. Upon termination of such special voting rights attributable to all holders of Preferred Units with respect to payment of distributions, the term of office of each director nominated by the holders of Preferred Units (the "Preferred Unit Directors") pursuant to such special voting rights shall terminate and the number of directors constituting the entire Board of Directors shall be reduced by the number of Preferred Unit Directors. The holders of the Preferred Units have no other

rights to participate in the management of AREP and are not entitled to vote on any matters submitted to a vote of the holders of Depositary Units.

Filing of Reports

To the best of AREP's knowledge, no director, executive officer or beneficial owner of more than 10% of AREP's Depositary Units failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended, during the year ended December 31, 1995.

Item 11. Executive Compensation. (1)

The following table sets forth information in respect of the compensation of the Chief Executive Officer and each of the other four most highly compensated executive officers of AREP for services in all capacities to AREP for the fiscal years ended December 31, 1995, 1994 and 1993. (2)

SUMMARY COMPENSATION TABLE
Annual Compensation

(a)	(b)	(c)
Name and Principal Position	Year	Salary ($)
John P. Saldarelli(3)	1995	126,000
Vice President, Secretary and Treasurer	1994	126,000
	1993	126,000

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(1) Pursuant to applicable regulations, certain columns of the Summary Compensation Table and each of the remaining tables have been omitted, as there has been no compensation awarded to, earned by or paid to any of the named executive officers by AREP or by the General Partner, which was subsequently reimbursed by AREP, required to be reported in those columns or tables.

(2) Carl C. Icahn, the Chief Executive Officer, received no compensation as such for the periods indicated. In addition, other than John P. Saldarelli, no other executive officer received compensation in excess of $100,000 from AREP for the applicable period.

(3) On March 18, 1991, Mr. Saldarelli was elected Vice President, Secretary and Treasurer of the General Partner. Mr. Saldarelli devotes substantially all of his time to the performance of services for AREP and the General Partner. The other executive officers and directors of the General Partner devote only a portion of their time to performance of services for AREP.

AREP has adopted a Nonqualified Unit Option Plan (the "Plan") pursuant to which options to purchase an aggregate of 1,416,910 Depositary Units at an option price equal to the market price on the date of grant may be granted to officers and key employees of the General Partner and AREP who provide services to AREP. To date, no options have been granted under the Plan.

In February 1993, AREP adopted a 401K plan pursuant to which AREP will make a matching contribution to an employee's individual plan account in the amount of one-third (1/3) of the first six (6%) percent of gross salary contributed by the employee.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

As discussed below, effective February 22, 1995 the General Partner and its affiliates contributed all of their Depositary Units to the Guarantor in exchange for a general partner interest in the Guarantor. As a result, as of February 22, 1995, the Guarantor owned 1,365,768 Depositary Units, or approximately 9.89% of the Depositary Units then outstanding, prior to giving effect to the Rights Offering. There were no outstanding Preferred Units on that date. After giving effect to the Rights Offering, the Guarantor owned 11,689,896 Depositary Units, or approximately 45.6% of the Depositary Units then outstanding, and 1,720,688 Preferred Units, or 87.1% of the Preferred Units then outstanding. The foregoing is exclusive of a 1.99% ownership interest in AREP which the General Partner held by virtue of its 1% General Partner interest in each of AREP and the Subsidiary. In addition, the Guarantor received certain registration rights with respect to its Depositary Units and Preferred Units for providing the subscription guaranty but was not otherwise compensated. Prior to May 1993, Icahn's ownership of the General Partner was through his affiliate, Meadowstar Holding Company, Inc. ("Meadowstar"). Meadowstar had originally purchased all of the outstanding shares of common stock of (i) the General Partner and (ii) API Nominee Corp., a Delaware corporation ("Nominee"), pursuant to an Acquisition Agreement, dated as of September 13, 1990 (the "Acquisition Agreement") between Meadowstar and Integrated Resources, Inc. In May 1993, Icahn purchased all of the outstanding shares of the General Partner from Meadowstar. As a result, Icahn became the beneficial owner of the 1,254,280 Depositary Units owned by the General Partner. Icahn may also be deemed to be the beneficial owner of the 148,962 Depositary Units owned of record by Nominee (the Units owned by Nominee are Depositary Units of holders who have not yet exchanged their limited partner interests) which, in accordance with state law are in the process of being turned over to the relevant state authorities as unclaimed property; however, Icahn disclaims such beneficial ownership. During the fiscal year ended December 31, 1995, the Guarantor acquired 810,416 Depositary Units in open market purchases. As a result of these purchases and subsequent purchases in 1996 to date and after giving effect to the Rights Offering, as of March 20, 1996, the Guarantor owns 12,991,312 Depositary Units, or approximately 50.6% of the outstanding Depositary Units and 1,741,688 Preferred Units or approximately 88.2% of the outstanding Preferred Units.

The affirmative vote of Unitholders holding more than 75% of the total number of all Units then outstanding, including Depositary Units held by the General Partner and its

affiliates, is required to remove the General Partner. Thus, since Icahn, through the Guarantor, holds approximately 50.6% of the Depositary Units outstanding after giving effect to the Rights Offering and subsequent purchases to date, the General Partner will not be able to be removed pursuant to the terms of the Partnership Agreement without Icahn's consent. Moreover, under the Partnership Agreement, the affirmative vote of the General Partner and Unitholders owning more than 50% of the total number of all outstanding Depositary Units then held by Unitholders, including the Guarantor, is required to approve, among other things, selling or otherwise disposing of all or substantially all of AREP's assets in a single sale or in a related series of multiple sales, dissolving AREP or electing to continue AREP in certain instances, electing a successor general partner, making certain amendments to the Partnership Agreement or causing AREP, in its capacity as sole limited partner of the Subsidiary, to consent to certain proposals submitted for the approval of the limited partners of the Subsidiary. Accordingly, as the Guarantor holds in excess of 50% of the Depositary Units outstanding, Icahn, through the Guarantor, will have effective control over such approval rights.

As of March 20, 1996, to the best knowledge of AREP, Wellington Management Company, a Massachusetts corporation, who filed a Schedule 13-G on January 26, 1996, owns 1,526,546 Depositary Units, or approximately 5.95% of the outstanding Depositary Units.

The following table provides information, as of March 20, 1996, as to the beneficial ownership of the Depositary Units and Preferred Units of AREP

for each director of the General Partner, and all directors and executive officers of the General Partner as a group.

Name of Beneficial Owner	Beneficial Ownership of Depositary Units	Percent of Class	Beneficial Ownership of Preferred Units	Percent of Class
Carl C. Icahn (1)	12,991,312	50.6	1,741,688	88.2%
All directors and executive officers as a group (6 persons)	12,991,312	50.6	1,741,688	88.2%

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(1) Carl C. Icahn, through the Guarantor, is the beneficial owner of the 12,991,312 Depositary Units set forth above and may also be deemed to be the beneficial owner of the 148,962 Depositary Units owned of record by API Nominee Corp., which in accordance with state law are in the process of being turned over to the relevant state authorities as unclaimed property; however, Mr. Icahn disclaims such beneficial ownership. The foregoing is exclusive of a 1.99% ownership interest in AREP which the General Partner holds by virtue of its 1% General Partner interest in each of AREP and the Subsidiary, but inclusive of the Depositary Units the Guarantor acquired through the Rights Offering. Furthermore, pursuant to a registration rights agreement entered into by the Guarantor in connection with the Rights Offering, AREP has agreed to pay any expenses incurred in connection with two demand and unlimited piggy-back registrations requested by the Guarantor.

Item 13. Certain Relationships and Related Transactions.

Related Transactions with the General Partner and its Affiliates

For the year ended December 31, 1995, AREP made no payments with respect to the Depositary Units owned by the General Partner. However, in 1995 the General Partner was allocated $699,597 of the income of AREP as a result of its 1.99% general partner interest in AREP.

In May 1995, AREP and an affiliate of the General Partner ("Affiliate") entered into an agreement with the third-party landlord of its leased executive office space. The agreement provided for AREP and the Affiliate to relocate their offices to an adjacent building also owned by the landlord which relocation occurred in September 1995. In accordance with the agreement, AREP entered into a lease, expiring in 2001, for 7,920 square feet of office space, at an annual rental of approximately $153,000. AREP has sublet to certain affiliates of the General Partner 3,205 square feet at an annual rental of approximately $62,000, resulting in a net annual rental of approximately $91,000. Affiliates of the General Partner reimbursed AREP for approximately $15,000 in rent paid by AREP on its behalf during 1995 in connection with the new lease. The prior lease, which was terminated, provided for approximately 6,900 square feet at an annual rental of $155,000 to AREP. In addition, AREP and the Affiliate received a lease termination fee of $350,000 allocated $175,000 to AREP and $175,000 to the Lessor. Such allocations and the terms of the sublease were reviewed and approved by the Audit Committee of the Board of Directors of the General Partner.

Property Management and Other Related Transactions

The General Partner and its affiliates benefited from the Rights Offering because, in their capacity as Exercising Rights Holders, they were entitled to the same right to increase their investment in AREP as other Unitholders, including acquiring additional Depositary Units. The Guarantor also received certain registration rights with respect to its Depositary Units

and Preferred Units for providing the Subscription Guaranty.

The General Partner and its affiliates may receive fees in connection with the acquisition, sale, financing, development and management of new properties acquired by AREP. As development and other new properties are acquired, developed, constructed, operated, leased and financed, the General Partner or its affiliates may perform acquisition functions, including the review, verification and analysis of data and documentation with respect to potential acquisitions, and perform development and construction oversight and other land development services, property management and leasing services, either on a day-to-day basis or on an asset management basis, and may perform other services and be entitled to fees and reimbursement of expenses relating thereto, provided the terms of such transactions are fair and reasonable to AREP in accordance with AREP Agreement and customary to the industry. It is not possible to state precisely what role, if any, the General Partner or any of its affiliates may have in the acquisition, development or management of any new investments. Consequently, it is not

possible to state the amount of the income, fees or commissions the General Partner or its affiliates might be paid in connection with the investment of the Rights Offering proceeds since the amount thereof is dependent upon the specific circumstances of each investment, including the nature of the services provided, the location of the investment and the amount customarily paid in such locality for such services. However, Unitholders may expect that, subject to the specific circumstances surrounding each transaction and the overall fairness and reasonableness thereof to AREP, the fees charged by the General Partner and its affiliates for the services described below generally will be within the ranges set forth below:

- Property Management and Asset Management Services. To the extent that AREP acquires any properties requiring active management (e.g., operating properties that are not net leased) or asset management services, including on site services, it may enter into management or other arrangements with the General Partner or its affiliates. Generally, it is contemplated that under property management arrangements, the entity managing the property would receive a property management fee (generally 3% to 6% of gross rentals for direct management, depending upon the location) and under asset management arrangements, the entity managing the asset would receive an asset management fee (generally .5% to 1% of the appraised value of the asset for asset management services, depending upon the location) in payment for its services and reimbursement for costs incurred.

- Brokerage and Leasing Commissions. AREP also may pay affiliates of the General Partner real estate brokerage and leasing commissions (which generally may range from 2% to 6% of the purchase price or rentals depending on location; this range may be somewhat higher for problem properties or lesser-valued properties).

- Lending Arrangements. The General Partner or its affiliates may lend money to, or arrange loans for, AREP. Fees payable to the General Partner or its affiliates in connection with such activities include mortgage brokerage fees (generally .5% to 3% of the loan amount), mortgage origination fees (generally .5% to 1.5% of the loan amount) and loan servicing fees (generally .10% to .12% of the loan amount), as well as interest on any amounts loaned by the General Partner or its affiliates to AREP.

- Development and Construction Services. The General Partner or its affiliates may also receive fees for development services, generally 1% to 4% of development costs, and general contracting services or construction management services, generally 4% to 6% of construction costs.

- Reinvestment Incentive Fees. Subject to the limitations described below, the General Partner is entitled to receive a reinvestment incentive fee (a "Reinvestment Incentive Fee") for performing acquisition services equal to a percentage of the purchase price (whether paid in cash, Depositary Units, other securities and/or with mortgage financing) of properties (other than Predecessor Properties) acquired from July 1, 1987 through July 1, 1997. This percentage is 1% for the first five years and 1/2% for the second five years. Although a Reinvestment Incentive Fee accrues each time a property is acquired, Reinvestment Incentive Fees are only payable on an annual basis, within 45 days after the end of each calendar year, if the following subordination provisions

are satisfied. Reinvestment Incentive Fees accrued in any year will

only be payable if the sum of (x) the sales price of all Predecessor Properties (net of associated debt which encumbered these Properties at the consummation of the Exchange) sold through the end of that year and (y) the appraised value of all Predecessor Properties which have been financed or refinanced (and not subsequently sold), net of the amount of any refinanced debt through the end of that year determined at the time of such financings or refinancings, exceeds the aggregate values assigned to those Predecessor Properties for purposes of the Exchange. If the subordination provisions are not satisfied in any year, payment of Reinvestment Incentive Fees for that year will be deferred. At the end of each year a new determination will be made with respect to subordination requirements (reflecting all sales, financings and refinancings from the consummation of the Exchange through the end of that year) in order to ascertain whether Reinvestment Incentive Fees may be payable irrespective of whether distributions have been made or are projected to be made to Unitholders. Through December 31, 1995, an aggregate of (i) 140 Predecessor Properties were sold or disposed of for an aggregate amount of approximately $69,123,000 net of associated indebtedness which encumbered these Properties at the consummation of the Exchange, and (ii) 25 Predecessor Properties were refinanced at an aggregate appraised value, net of the amount of the refinanced debt, of approximately $44,431,000 for a sum total of approximately $113,554,000. Aggregate appraised values attributable to these Predecessor Properties for purposes of the Exchange were approximately $105,039,000. Accordingly, through December 31, 1995, AREP satisfied the subordination requirements detailed above.

AREP may also enter into other transactions with the General Partner and its affiliates, including, without limitation, buying and selling properties and borrowing and lending funds from or to the General Partner or its affiliates, joint venture developments and issuing securities to the General Partner or its affiliates in exchange for, among other things, assets that they now own or may acquire in the future, provided the terms of such transactions are fair and reasonable to AREP. The General Partner is also entitled to reimbursement by AREP for all allocable direct and indirect overhead expenses (including, but not limited to, salaries and rent) incurred in connection with the conduct of AREP's business.

In addition, employees of AREP may, from time to time, provide services to affiliates of the General Partner, with AREP being reimbursed therefor. Reimbursement to AREP by such affiliates in respect of such services is subject to review and approval by the Audit Committee of the Board of Directors of the General Partner. In 1995 such amounts were approximately $86,000, which reimbursement was approved by the Audit Committee of the General Partner.

The Audit Committee of the Board of Directors of the General Partner meets on an annual basis, or more often if necessary, to review any conflicts of interest which may arise, including the payment by AREP of any fees to the General Partner or any of its affiliates. The General Partner and its affiliates may not receive duplicative fees.

Nonqualified Unit Option Plan

AREP has adopted the Plan, under which options to purchase an aggregate of 1,416,910 Depositary Units may be granted to officers and key employees of the General Partner and AREP who provides services to AREP. To date, no options have been granted under the Plan. See Item 11 - "Executive Compensation."

Part IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) Financial Statements:

The following financial statements of American Real Estate Partners, L.P. are included in Part II, Item 8:

	Page Number
Independent Auditors' Report	II-12
Consolidated Balance Sheets - December 31, 1995 and 1994	II-13-14
Consolidated Statements of Earnings - Years ended December 31, 1995, 1994 and 1993	II-15
Consolidated Statements of Changes in Partners' Equity - Years ended December 31, 1995, 1994 and 1993	II-16
Consolidated Statements of Cash Flows - Years ended December 31, 1995, 1994 and 1993	II-17-18
Notes to Consolidated Financial Statements	II-19

(a)(2) Financial Statement Schedules:

Schedule III -	Real Estate Owned and Revenues Earned (by tenant or guarantor, as applicable)	IV-5-22

All other Financial Statement schedules have been omitted because the required financial information is not applicable or the information is shown in the Financial Statements or Notes thereto.

(a)(3) Exhibits:

3.1 Certificate of Limited Partnership of AREP, dated February 17, 1987 (filed as Exhibit No. 3.1 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

3.2 Amended and Restated Agreement of Limited Partnership of AREP, dated as of May 12, 1987 (filed as Exhibit No. 3.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

3.3 Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of AREP (filed as Exhibit 3.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

3.4 Certificate of Limited Partnership of American Real Estate Holdings Limited Partnership (the "Subsidiary"), dated February 17, 1987, and amendment thereto, dated March 12, 1987 (filed as Exhibit No. 3.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

3.5 Amended and Restated Agreement of Limited Partnership of the Subsidiary, dated as of July 1, 1987 (filed as

Exhibit No. 3.4 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

4.1 Depositary Agreement among AREP, the General Partner and Registrar and Transfer Company, dated as of July 1, 1987 (filed as Exhibit No. 4.1 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

4.2 Amendment No. 1 to the Depositary Agreement (filed as Exhibit 4.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

4.3 Specimen Depositary Receipt (filed as Exhibit No. 4.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

4.4 Form of Transfer Application (filed as Exhibit No. 4.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

4.5 Specimen Certificate representing Preferred Units (filed as Exhibit No. 4.9 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).

10.1 Nonqualified Unit Option Plan (filed as Exhibit No. 10.1 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

10.2 Distribution Reinvestment Plan (filed as Exhibit No. 10.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

10.3 Note Purchase Agreements, dated as of May 27, 1988 among AREP, the Subsidiary and The Prudential Insurance Company of America (the "Note Agreements") (filed as Exhibit Nos. 2a and 2b to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).

10.4 Amendment No. 1 to the Note Agreements dated November 17, 1988 (filed as Exhibit No. 10.2 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).

10.5 Amendment No. 2 to the Note Agreements dated November 17, 1988 (filed as Exhibit No. 10.3 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).

10.6 Amendment No. 3 to the Note Agreements dated as of June 21, 1994 (filed as Exhibit No. 10.4 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).

10.7 Amendment No. 4 to the Note Agreements dated as of August 12, 1994 (filed as Exhibit No. 10.5 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).

10.8 9.6% Senior Promissory Note of AREP and the Subsidiary due May 27, 1998 payable to The Prudential Insurance Company of America (filed as Exhibit No. 2c to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).

10.9 9.6% Senior Promissory Note of AREP and the Subsidiary due May 27, 1998 payable to Prudential Property and Casualty Insurance Company (filed as Exhibit No. 2d to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).

10.10 Subscription Guaranty Agreement between AREP and High Coast Limited Partnership (the "Guarantor") (filed as Exhibit 4.10 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).

10.11 Registration Rights Agreement between AREP and the Guarantor (filed as Exhibit 4.11 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).

10.12 Amended and Restated Agency Agreement (filed as Exhibit 10.12 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

10.13 Subscription Agent Agreement (filed as Exhibit 10.13 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

16 Letter dated September 27, 1991 of Deloitte & Touche regarding change in accountants (filed as Exhibit No. A to AREP's Current Report on Form 8-K dated October 3, 1991 and incorporated herein by reference).

22 List of Subsidiaries (filed as Exhibit No. 22 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

(b) Reports on Form 8-K:

(1) AREP filed a Current Report on Form 8-K (the "Form 8-K") with the Securities and Exchange Commission on March 16, 1995. Pursuant to Item 5 of the Form 8-K, AREP released its earnings for the fourth quarter and fiscal year ended December 31, 1995 and also announced that no distribution would be made for the fiscal quarter ending March 31, 1996.

(2) AREP filed a Current Report on Form 8-K (the "Form 8-K") with the Securities and Exchange Commission on December 4, 1995. Pursuant to Item 5 of the Form 8-K, AREP announced that no distribution would be made for the fourth quarter of 1995 and that no distributions are expected to be made in 1996.

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

Schedule III

page 1

REAL ESTATE OWNED AND REVENUES EARNED

	State	No. of Locations	Amount of Encumberances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
				Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method			
COMMERCIAL PROPERTY LAND AND BUILDING							
Acme Markets, Inc. and FPBT of Penn.	PA	1		$2,004,393		$2,004,393	$1,314,697
Alabama Power Company	AL	5	5,033,746				
Amer Stores and The Fidelity Bank	PA	1					
Amer Stores, Grace, & Shottenstein Stores	NJ	1		2,043,567		2,043,567	1,489,539
American Recreation Group, Inc.	NC	1					
Amterre Ltd. Partnership	NJ	1		1,559,648		1,559,648	
Amterre Ltd. Partnership	PA	2	987,374	639,797		639,797	
Amterre Ltd. Partnership	PA	1	2,345,097				
Best Products Co., Inc.	VA	1	16,727				
Caldor, Inc.	MA	1					
Chesebrough-Pond's Inc.	CN	1		1,549,805		1,549,805	1,070,864
Chomerics, Inc.	MA	1					
Coldwell Banker & Co.	CA	1		482,399		482,399	226,386
Coldwell Banker & Co.	MN	1		998,771		998,771	672,174
Coldwell Banker & Co.	VA	1		803,998		803,998	453,368
Coldwell Banker & Co.	MO	1					
Collins Foods International, Inc.	OR	6	136,869	298,451		298,451	
Collins Foods International, Inc.	CA	3	194,939	429,166		429,166	
Collins Foods International, Inc.	IL	1		0		0	
Cordis Corporation	FL	1	14,628,215				
David Miller of California	CA	1		1,036,681		1,036,681	453,148
Dillon Companies, Inc.	MO	1		546,681		546,681	284,686
Dillon Companies, Inc.	LA	8		1,555,112		1,555,112	830,746
Druid Point Bldg.	GA	1		4,919,046	910	4,919,956	521,787
Duke Power Co.	NC	1	3,465,631				
European American Bank and Trust Co.	NY	1		1,355,210		1,355,210	1,207,260
Farwell Bldg.	MN	1	1,366,386	4,101,006	951,280	5,052,286	587,899
Federated Department Stores, Inc.	CA	1		0		0	0
Federated Department Stores, Inc.	CA	1		363,342		363,342	
First National Supermarkets, Inc.	CT	1	15,084,046				
First Union National Bank	NC	1					
Fisher Scientific Company	IL	1	480,176	597,806		597,806	98,431
Foodarama Supermarkets, Inc.	PA	1		1,317,844		1,317,844	815,718
Forte Hotels International, Inc.	NJ	1	1,133,475				
Forte Hotels International, Inc.	TX	1	329,645	3,572,242		3,572,242	2,810,501

Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method		Financing Method	Part 2 - Revenues earned for the Year ended December 31, 1995		
Rent due and accrued or received in advance at	Net	Minimum lease payments due and accrued at end	Total revenue applicable	Expended for interest, taxes, repairs and	Net income applicable

	end of period	Investment	of period	to period	expenses	to period
COMMERCIAL PROPERTY LAND AND BUILDING						
Acme Markets, Inc. and FPBT of Penn.				$245,888	$39,937	$205,951
Alabama Power Company		$8,120,488		851,792	481,998	369,794
Amer Stores and The Fidelity Bank		746,379	($3,250)	91,721	0	91,721
Amer Stores, Grace, & Shottenstein Stores				232,735	22,100	210,635
American Recreation Group, Inc.		738,606		73,201	761	72,440
Amterre Ltd. Partnership		3,442,111		469,379	18,028	451,351
Amterre Ltd. Partnership	($6,147)	2,102,022	(24,901)	293,906	99,733	194,173
Amterre Ltd. Partnership		6,447,887	(70,618)	641,867	255,191	386,676
Best Products Co., Inc.		3,587,991		354,092	11,013	343,079
Caldor, Inc.		2,005,151	11,716	190,970	19,534	171,436
Chesebrough-Pond's Inc.	(11,770)			141,236	102,337	38,899
Chomerics, Inc.		6,558,715	80,505	832,845	(38,896)	871,741
Coldwell Banker & Co.	4,935			59,215	8,971	50,244
Coldwell Banker & Co.	10,280			123,364	24,871	98,493
Coldwell Banker & Co.	8,224			98,692	16,775	81,917
Coldwell Banker & Co.				0	7,141	(7,141)
Collins Foods International, Inc.		178,591		47,678	13,711	33,967
Collins Foods International, Inc.		252,760		68,349	24,429	43,920
Collins Foods International, Inc.		0		0	0	0
Cordis Corporation		19,587,827		1,988,130	1,509,165	478,965
David Miller of California	5,290			63,482	20,750	42,732
Dillon Companies, Inc.	(13,087)			57,850	12,756	45,094
Dillon Companies, Inc.	(15,819)			220,140	39,583	180,557
Druid Point Bldg.				201,016	469,445	(268,429)
Duke Power Co.		5,317,568	(66,431)	536,173	349,310	186,863
European American Bank and Trust Co.				175,000	64,244	110,756
Farwell Bldg.				926,778	623,766	303,012
Federated Department Stores, Inc.				0	0	0
Federated Department Stores, Inc.	12,779	416,818		67,212	0	67,212
First National Supermarkets, Inc.		24,571,019	(221,459)	2,272,113	1,459,007	813,106
First Union National Bank		649,224		59,997	142	59,855
Fisher Scientific Company				163,000	68,568	94,432
Foodarama Supermarkets, Inc.				120,516	35,567	84,949
Forte Hotels International, Inc.		6,656,998	(59,447)	606,883	150,145	456,738
Forte Hotels International, Inc.				334,152	141,430	192,722

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

Schedule III

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REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1995 - Accounted for under the:

Operating Method

	State	No. of Locations	Amount of Encumberances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
Fox Grocery Company	WV	1	1,479,272				
General Signal Technical Corp.	MA	1					
Gino's, Inc.	MO	1	101,431	209,213		209,213	
Gino's, Inc.	CA	1	89,311	225,100		225,100	
Gino's, Inc.	OH	1	93,261	201,938		201,938	
Gino's, Inc.	IL	1	76,301	235,972		235,972	
Gino's, Inc.	NJ	1	81,688	259,525		259,525	
Gino's, Inc. & The A&P Co.	PA	1	309,332	3,022,710		3,022,710	1,894,099
Grand Union Co.	NJ	1		430,664		430,664	
Grand Union Co.	MD	1		372,383		372,383	239,755
Grand Union Co.	NY	3		1,110,120		1,110,120	
Grand Union Co.	NY	1					
Grand Union Co.	VA	1		266,468		266,468	171,842
Grand Union Co.	NY	1	4,672,275				
Gunite	IN	1	234,727	1,134,565		1,134,565	1,017,044
G.D. Searle & Co.	MD	1		299,229		299,229	136,070
G.D. Searle & Co.	OH	1		0		0	0
G.D. Searle & Co.	MN	1		261,918		261,918	167,299
G.D. Searle & Co.	AL	1		0		0	0
G.D. Searle & Co.	OH	1		0		0	0
G.D. Searle & Co.	IL	1		256,295		256,295	149,249
G.D. Searle & Co.	FL	1		0		0	0
G.D. Searle & Co.	MN	1		339,358		339,358	136,164
G.D. Searle & Co.	IL	1		323,559		323,559	214,450
G.D. Searle & Co.	TN	1		214,421		214,421	134,786
G.D. Searle & Co.	TN	1		0		0	0
G.D. Searle & Co.	MD	1		325,891		325,891	135,089
G.D. Searle & Co.	LA	1					
Hancock	LA	1	2,344,465	4,484,256		4,484,256	614,311
Haverty Furniture Companies, Inc.	GA	1	296,867				
Haverty Furniture Companies, Inc.	FL	1	224,164				
Haverty Furniture Companies, Inc.	VA	1	281,722				
Holiday Inn	AZ	1	3,254,594	8,661,230	367,645	9,028,875	1,141,233
Integra A Hotel and Restaurant Co.	AL	2		245,625		245,625	
Integra A Hotel and Restaurant Co.	IL	1		198,392		198,392	

	State	No. of Locations	Amount of Encumberances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
Integra A Hotel and Restaurant Co.	IN	1		231,513		231,513	
Integra A Hotel and Restaurant Co.	OH	1					

	Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method		Financing Method	Part 2 - Revenues earned for the Year ended December 31, 1995		
	Rent due and accrued or received in advance at end of period	Net Investment	Minimum lease payments due and accrued at end of period	Total revenue applicable to period	Expended for interest, taxes, repairs and expenses	Net income applicable to period
Fox Grocery Company		3,521,376		316,059	139,288	176,771
General Signal Technical Corp.				1,105,293	650,770	454,523
Gino's, Inc.	(4,899)	188,145		36,310	9,442	26,868
Gino's, Inc.	(4,311)	179,142		45,398	11,823	33,575
Gino's, Inc.		160,238		41,502	10,108	31,394
Gino's, Inc.	(4,736)	166,539		48,165	11,948	36,217
Gino's, Inc.	(4,027)	206,149		51,079	12,630	38,449
Gino's, Inc. & The A&P Co.	(5,417)			299,053	113,651	185,402
Grand Union Co.		474,997		89,724	15	89,709
Grand Union Co.				33,750	7,744	26,006
Grand Union Co.		1,224,356		231,272	155	231,117
Grand Union Co.				59,947	123,318	(63,371)
Grand Union Co.				24,150	3,722	20,428
Grand Union Co.		7,735,443		713,735	482,544	231,191
Gunite	(16,667)			200,000	73,934	126,066
G.D. Searle & Co.				27,000	5,372	21,628
G.D. Searle & Co.				0	3,356	(3,356)
G.D. Searle & Co.				22,162	3,519	18,643
G.D. Searle & Co.				0	856	(856)
G.D. Searle & Co.				0	0	0
G.D. Searle & Co.	(1,918)			23,013	6,185	16,828
G.D. Searle & Co.				5,390	6,780	(1,390)
G.D. Searle & Co.				30,614	7,011	23,603
G.D. Searle & Co.				28,319	4,516	23,803
G.D. Searle & Co.				18,740	12,338	6,402
G.D. Searle & Co.				0	5,193	(5,193)
G.D. Searle & Co.				28,598	5,365	23,233
G.D. Searle & Co.				7,486	1,290	6,196
Hancock	(2,847)			436,170	404,473	31,697
Haverty Furniture Companies, Inc.		698,446		62,761	30,229	32,532
Haverty Furniture Companies, Inc.		529,125		47,546	22,758	24,788
Haverty Furniture Companies, Inc.		674,314		60,860	28,744	32,116
Holiday Inn	222,608			5,713,473	4,915,231	798,242
Integra A Hotel and Restaurant Co.		1,540,326		253,388	0	253,388
Integra A Hotel and Restaurant Co.		549,309		110,523	0	110,523
Integra A Hotel and Restaurant Co.		660,868		126,821	0	126,821
Integra A Hotel and Restaurant Co.		717,080		101,668	0	101,668

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

Schedule III
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REAL ESTATE OWNED AND REVENUES EARNED

	State	No. of Locations	Amount of Encumberances	Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method: Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
Integra A Hotel and Restaurant Co.	MO	1		224,837		224,837	
Integra A Hotel and Restaurant Co.	TX	1		228,793		228,793	
Integra A Hotel and Restaurant Co.	MI	1		234,464		234,464	
Intermountain Color	KY	1	71,070	559,644		559,644	392,843
J.C. Penney Company, Inc.	MA	1	110,839	2,484,262		2,484,262	1,429,333
Kansas City Round Up, Inc.	KS						
Kelley Springfield Tire Company	TN	1		120,946		120,946	71,165
K-Mart Corporation	LA	1	872,405				
K-Mart Corporation	WI	1					
K-Mart Corporation	FL	1					
K-Mart Corporation	MN	1	625,000				
K-Mart Corporation	FL	1		2,581,077	175,921	2,756,998	1,622,806
K-Mart Corporation	IA	1					
K-Mart Corporation	FL	1		2,636,000		2,636,000	1,692,753
K-Mart Corporation	IL	1	338,058				
Kobacker Stores, Inc.	MI	4		215,148		215,148	
Kobacker Stores, Inc.	KY	1	75,916	88,364		88,364	
Kobacker Stores, Inc.	OH	5	75,543	354,140	(110)	354,030	
Kobacker Stores, Inc.	FL	1	174,059	186,211		186,211	

	State	No. of Locations	Amount of Encumbrances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
Kraft, Inc.	NC	1		1,434,125		1,434,125	1,051,233
Landmark Bancshares Corporation	MO	1					
Levitz Furniture Corporation	NY	1		1,648,463		1,648,463	
Lockheed Corporation	CA	1		2,449,469		2,449,469	
Lockheed Corporation	NJ	1					
Louisiana Power and Light Company	LA	8	5,385,523				
Louisiana Power and Light Company	LA	7	3,221,674	3,496,322	(4,891)	3,491,431	
Macke Co.	VA	1		553,113		553,113	350,281
Marsh Supermarkets, Inc.	IN	1		5,001,933		5,001,933	1,670,725
Montgomery Ward, Inc.	PA	1	887,277	3,289,166		3,289,166	2,020,875
Montgomery Ward, Inc.	NJ	1					
Morrison, Inc.	AL	1		324,288		324,288	
Morrison, Inc.	GA	2		347,404		347,404	
Morrison, Inc.	FL	1		375,392		375,392	
Morrison, Inc.	VA	2		363,059		363,059	
M.C.O. Properties	CO	1	1,579				
National Convenience Stores, Inc.	TX						
North Carolina National Bank	SC	6		2,938,008		2,938,008	907,373

	Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method		Financing Method	Part 2 - Revenues earned for the Year ended December 31, 1995		
	Rent due and accrued or received in advance at end of period	Net Investment	Minimum lease payments due and accrued at end of period	Total revenue applicable to period	Expended for interest, taxes, repairs and expenses	Net income applicable to period
Integra A Hotel and Restaurant Co.		549,508		114,868	0	114,868
Integra A Hotel and Restaurant Co.		655,406		146,556	0	146,556
Integra A Hotel and Restaurant Co.		639,957		143,470	0	143,470
Intermountain Color	(6,417)			76,417	35,785	40,632
J.C. Penney Company, Inc.	(20,854)			250,244	101,878	148,366
Kansas City Round Up, Inc.				0	0	0
Kelley Springfield Tire Company				11,449	3,760	7,689
K-Mart Corporation		1,763,760		148,182	85,753	62,429
K-Mart Corporation		2,014,945		181,291	0	181,291
K-Mart Corporation		2,410,825		230,436	0	230,436
K-Mart Corporation		1,868,777	13,340	152,941	54,038	98,903
K-Mart Corporation				302,337	158,634	143,703
K-Mart Corporation		1,440,868		135,267	0	135,267
K-Mart Corporation		1,984,651		426,438	60,642	365,796
K-Mart Corporation		1,047,866		83,549	31,152	52,397
Kobacker Stores, Inc.	6,479	453,821		36,976	215	36,761
Kobacker Stores, Inc.	1,884	106,607		19,802	8,974	10,828
Kobacker Stores, Inc.	9,691	656,732		123,826	40,521	83,305
Kobacker Stores, Inc.	4,008	224,627		42,178	20,569	21,609
Kraft, Inc.	(24,007)			142,897	21,279	121,618
Landmark Bancshares Corporation		4,758,696		667,021	0	667,021
Levitz Furniture Corporation	(13,017)	2,405,435	(27,661)	376,176	0	376,176
Lockheed Corporation		4,360,086		768,552	4,366	764,186
Lockheed Corporation				0	1,694	(1,694)
Louisiana Power and Light Company		13,389,795	172,448	1,676,689	534,549	1,142,140
Louisiana Power and Light Company	39,198	4,755,128	63,957	1,057,428	343,531	713,897
Macke Co.	5,000			60,000	6,999	53,001
Marsh Supermarkets, Inc.				548,962	231,479	317,483
Montgomery Ward, Inc.				314,280	160,121	154,159
Montgomery Ward, Inc.		1,671,132		146,484	3,116	143,368
Morrison, Inc.	3,518	781,317	10,372	141,685	0	141,685
Morrison, Inc.	3,793	750,295	10,097	306,388	3,111	303,277
Morrison, Inc.	3,997	787,495	10,204	149,090	0	149,090
Morrison, Inc.	3,940	1,905,992	24,420	290,554	801	289,753
M.C.O. Properties	(7,250)	(1)		52,749	7,169	45,580
National Convenience Stores, Inc.				9,424	787	8,637
North Carolina National Bank	18,269			218,755	56,419	162,336

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

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REAL ESTATE OWNED AND REVENUES EARNED

				Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method			
	State	No. of Locations	Amount of Encumbrances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
Occidental Petroleum Corp.	CA	1	2,083,578	2,564,053		2,564,053	363,326
Ohio Power Co. Inc.	OH	1					
Old National Bank of Washington	WA	1		4,190,632		4,190,632	1,830,477

Pace Membership Warehouse, Inc.	MI	1				
Penske Corp.	NJ	2				
Penske Corp.	OH	1	166,844			
Penske Corp.	NY	1				
Penske Corp.	MI	1	207,778	3,284,450	3,284,450	1,816,955
Petrolane, Inc.	LA	1				
Pioneer Standard Electronics, Inc.	NY	1	55,092	365,354	365,354	
Pneumo Corp.	OH	1	1,174,441			
Ponderosa Systems, Inc.	GA	1				
Portland General Electric Company	OR	1	35,534,172			
Rouse Company	MD	1	4,018,418			
Rummel Fibre Co., Inc.	GA	1		0	0	
Safeway Stores, Inc.	LA	1		1,782,885	1,782,885	1,034,762
Sams	MI	1	5,679,283	8,844,225	8,844,225	1,049,002
Smith's Management Corp.	NV	1	427,639			
Southland Corporation	FL	10		1,162,971	1,162,971	626,779
Sperry - Sun Drilling	CAN	1				
Stop 'N Shop Co., Inc.	NY	1		5,013,507	5,013,507	3,454,933
Stop 'N Shop Co., Inc.	VA	1	1,143,339			
Super Foods Services, Inc.	MI	1	7,186,060			
SuperValu Stores, Inc.	MN	1		1,370,965	1,370,965	158,589
SuperValu Stores, Inc.	OH	1		3,000,671	3,000,671	357,702
SuperValu Stores, Inc.	GA	1		2,344,836	2,344,836	276,190
SuperValu Stores, Inc.	IN	1		2,267,573	2,267,573	266,710
Telecom Properties, Inc.	OK	1	55,736			
Telecom Properties, Inc.	KY	1	145,625	281,253	281,253	
The A&P Company	MI	1				
The TJX Companies, Inc.	IL	1				
Toys "R" Us, Inc.	MA	1	612,590	330,605	330,605	
Toys "R" Us, Inc.	IL	1	794,453	427,993	427,993	
Toys "R" Us, Inc.	NY	1	894,956	480,785	480,785	
Toys "R" Us, Inc.	TX	1	933,243	501,836	501,836	
Toys "R" Us, Inc.	MI	1	892,537			
Toys "R" Us, Inc.	TX	1	637,527			

	Part 1 - Real estate owned at December 31, 1995 - Accounted for under the:			Part 2 - Revenues earned for the Year ended December 31, 1995		
	Operating Method		Financing Method			
	Rent due and accrued or received in advance at end of period	Net Investment	Minimum lease payments due and accrued at end of period	Total revenue applicable to period	Expended for interest, taxes, repairs and expenses	Net income applicable to period
Occidental Petroleum Corp.				0	317,490	(317,490)
Ohio Power Co. Inc.		4,131,774	114,600	384,862	1,697	383,165
Old National Bank of Washington				677,222	493,183	184,039
Pace Membership Warehouse, Inc.				0	150,340	(150,340)
Penske Corp.				28,767	11,685	17,082
Penske Corp.		626,168		60,757	17,936	42,821
Penske Corp.				15,616	674	14,942
Penske Corp.				347,495	65,090	282,405
Petrolane, Inc.				34,018	(480)	34,498
Pioneer Standard Electronics, Inc.		581,057		90,718	9,515	81,203
Pneumo Corp.		2,485,733	27,923	242,813	116,323	126,490
Ponderosa Systems, Inc.				0	353	(353)
Portland General Electric Company		53,308,138	428,109	4,598,293	3,202,805	1,395,488
Rouse Company		6,714,267	62,280	593,252	410,397	182,855
Rummel Fibre Co., Inc.				18,270	0	18,270
Safeway Stores, Inc.				85,150	13,236	71,914
Sams				1,167,894	725,195	442,699
Smith's Management Corp.		883,647		79,415	41,712	37,703
Southland Corporation				214,592	64,151	150,441
Sperry - Sun Drilling				69,683	38,308	31,375
Stop 'N Shop Co., Inc.				454,145	149,527	304,618
Stop 'N Shop Co., Inc.		3,038,584	(30,930)	273,456	108,950	164,506
Super Foods Services, Inc.		10,544,185		1,121,571	622,206	499,365
SuperValu Stores, Inc.	(43,680)			114,885	26,679	88,206
SuperValu Stores, Inc.	84,630			319,834	58,394	261,440
SuperValu Stores, Inc.	13,237			224,215	45,631	178,584
SuperValu Stores, Inc.	(7,325)			193,024	44,128	148,896
Telecom Properties, Inc.		125,713	1,338	11,820	5,691	6,129
Telecom Properties, Inc.	2,293	112,224	1,274	38,001	14,891	23,110
The A&P Company		1,780,281		186,641	269	186,372
The TJX Companies, Inc.		2,836,063	(54,094)	247,784	0	247,784
Toys "R" Us, Inc.		761,036		108,557	45,718	62,839
Toys "R" Us, Inc.		982,537		125,094	59,290	65,804
Toys "R" Us, Inc.		1,098,708		128,097	67,221	60,876
Toys "R" Us, Inc.		1,150,423		146,446	69,648	76,798
Toys "R" Us, Inc.		1,088,756		95,939	48,258	47,681
Toys "R" Us, Inc.		1,515,075		134,645	67,351	67,294

AMERICAN REAL ESTATE PARTNER, LP
a limited partnership

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REAL ESTATE OWNED REVENUES EARNED

	State	No. of Locations	Amount of Encumberances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
			Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method				
Trafalgar Industries, Inc.	NY	1	285,008				
Unisource Corporation	CA	1					
USA Petroleum Corporation	SC	2		163,161		163,161	
USA Petroleum Corporation	OH	1		78,443		78,443	
USA Petroleum Corporation	GA	2		138,062		138,062	
Waban	NY	1	3,813,302	8,112,513	185,788	8,298,301	282,343
Watkins	MO	1		965,741		965,741	38,762
Webcraft Technologies	MD	1	594,044	780,774		780,774	54,773
Wetterau, Inc.	PA	1					
Wetterau, Inc.	NJ	2	991,981				
Wickes Companies, Inc.	CA	3	1,698,075	4,330,986		4,330,986	2,345,723
RESIDENTIAL PROPERTY LAND AND BUILDING							
Stoney Falls	KY	1	5,438,030	8,291,102	267,436	8,558,538	426,345
Stoney Brooke	KY	1	4,449,298	5,250,000	113,441	5,363,441	233,750
Crown Cliffs	AL	1	8,831,461	1,138,000	9,751,183	10,889,183(2)	265,569
Westover Hills	NC	1		1,600,000	5,388,427	6,988,427(3)	69,433
COMMERCIAL PROPERTY - LAND							
Easco Corp.	NC	1		157,560		157,560	
Foodarama supermarkets, Inc.	NY	1		140,619		140,619	
Foodarama supermarkets, Inc.	PA	1		112,554		112,554	
Gino's, Inc.	MD	1		86,027		86,027	
Gino's, Inc.	MI	1		71,160		71,160	
Gino's, Inc.	MA	2		102,048		102,048	
Gino's, Inc.	NJ	2		143,938		143,938	
J.C. Penney Company, Inc.	NY	1		51,009		51,009	
Levitz Furniture Corporation	CA	2		1,134,836		1,134,836	
Levitz Furniture Corporation	KS	1		460,490		460,490	
Lionel	PA						

	Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method		Financing Method	Part 2 - Revenues earned for the Year ended December 31, 1995		
	Rent due and accrued or received in advance at end of period	Net Investment	Minimum lease payments due and accrued at end of period	Total revenue applicable to period	Expended for interest, taxes, repairs and expenses	Net income applicable to period
Trafalgar Industries, Inc.				2,008,741	124,923	1,883,818
Unisource Corporation				0	0	0
USA Petroleum Corporation		308,267		42,612	0	42,612
USA Petroleum Corporation		148,205		20,487	0	20,487
USA Petroleum Corporation		260,845		36,056	0	36,056
Waban				659,262	463,056	196,206
Watkins	(9,000)	0		439,046	21,143	417,903
Webcraft Technologies				171,353	90,135	81,218
Wetterau, Inc.		916,460		96,328	3,143	93,185
Wetterau, Inc.		1,993,471		207,882	120,707	87,175
Wickes Companies, Inc.	37,000			686,887	255,067	431,820
RESIDENTIAL PROPERTY LAND AND BUILDING						
Stoney Falls				2,131,988	1,651,536	480,452
Stoney Brooke				1,335,006	1,059,553	275,453
Crown Cliffs				795,550	1,006,798	(211,248)
Westover Hills				53,103	168,148	(115,045)
COMMERCIAL PROPERTY - LAND						
Easco Corp.	(2,083)			12,400	143	12,257
Foodarama supermarkets, Inc.				14,000	0	14,000
Foodarama supermarkets, Inc.				2,000	14,932	(12,932)
Gino's, Inc.				7,143	0	7,143
Gino's, Inc.				7,143	0	7,143
Gino's, Inc.				14,286	344	13,942
Gino's, Inc.				5,357	8,506	(3,149)
J.C. Penney Company, Inc.				5,500	0	5,500
Levitz Furniture Corporation	458			117,077	0	117,077
Levitz Furniture Corporation				47,009	0	47,009
Lionel				0	(17,957)	17,957

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

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REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method

	State	No. of Locations	Amount of Encumberances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
COMMERCIAL PROPERTY - BUILDING							
Bank South	GA	1	2,018,511				
Harwood Square	IL	1		6,810,478		6,810,478	2,603,602
Holiday Inn	FL	1		6,492,400	162,417	6,654,817	1,180,084
Lockheed Corporation	CA	1					
Safeway Stores, Inc.	CA	1		558,652		558,652	472,543
Toys "R" Us, Inc.	RI	1					
United Life & Accident Ins. Co.	NH	1	2,432,946				
Wickes Companies, Inc.	PA	1	190,915				
Weigh-Tronix, Inc.	CA	1					
DEVELOPMENT PROPERTY							
Dellwood	NY	1		3,104,793		3,104,793	
Grassy Hollow	NY	1		598,145		598,145	
East Syracuse	NY	2		1,243,789		1,243,789	
			$163,967,561	$175,951,812	$17,359,447	$193,311,259(1)	$49,406,334(1)

	Part 1 - Real estate owned at December 31, 1995 - Accounted for under the: Operating Method		Financing Method	Part 2 - Revenues earned for the Year ended December 31, 1995		
	Rent due and accrued or received in advance at end of period	Net Investment	Minimum lease payments due and accrued at end of period	Total revenue applicable to period	Expended for interest, taxes, repairs and expenses	Net income applicable to period
COMMERCIAL PROPERTY - BUILDING						
Bank South		3,950,065		398,919	239,028	159,891
Harwood Square	5,778			707,869	362,768	345,101
Holiday Inn	400,622			4,217,221	4,085,827	131,394
Lockheed Corporation		6,091,013		872,823	0	872,823
Safeway Stores, Inc.				26,900	20,691	6,209
Toys "R" Us, Inc.		1,079,730		102,709	0	102,709
United Life & Accident Ins. Co.		4,688,575	(43,667)	395,358	240,501	154,857
Wickes Companies, Inc.		3,427,188		389,541	33,960	355,581
Weigh-Tronix, Inc.		2,914,612		298,857	0	298,857
DEVELOPMENT PROPERTY						
Dellwood				0	0	0
Grassy Hollow				0	0	0
East Syracuse				0	0	0
	$682,633	$281,532,529	$430,125	$61,522,086	$32,209,576	$29,312,510

(1) Amount shown includes hotel operating properties.

(2) The Company owns a 70% interest in the joint venture which owns this property.

(3) The Company owns a 90% interest in the joint venture which owns this property.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1995

1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel operating properties, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1995	$185,327,608
Additions during period	22,019,288
Write downs	(768,701)
Reclassifications during period to assets held for sale	(3,227,355)
Disposals during period	(10,039,581)
Balance-December 31, 1995	$193,311,259

b. A reconciliation of the total amount of accumulated depreciation at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1995	$ 48,234,722
Depreciation during period	4,731,153
Disposals during period	(2,106,287)
Reclassifications during period to property held for sale	(1,453,254)
Balance-December 31, 1995	$ 49,406,334

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years.

2. A reconciliation of the total amount at which real estate owned, accounted for under the financing method, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1995	$314,260,786
Reclassifications during period	(1,280,739)
Disposals during period	(24,242,668)
Amortization of unearned income	29,452,066
Minimum lease rentals received	(36,656,916)
Balance-December 31, 1995	$281,532,529

3. The aggregate cost of real estate owned for Federal income tax purposes is $376,471,538.

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1995

4. Net income applicable to the period in Schedule III is reconciled with net earnings as follows:

Net income applicable to financing and operating leases	$ 29,312,510
Add interest income - other	8,398,380
	37,710,890
Deduct expenses not allocated:	
General and administrative expenses	2,605,331
Nonmortgage interest expense	3,696,889
Other	575,794
	6,878,014
Earnings before gain on property transacitons	30,832,876
Provision for loss on property	(768,701)
Gain on sales of real estate	5,091,445
Net earnings	$ 35,155,620

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1994

1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel operating properties, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1994	$176,050,393
Additions during period	12,496,354
Write downs	(322,000)
Reclassifications during period to assets held for sale	(1,340,935)
Disposals during period	(1,556,204)
Balance-December 31, 1994	$185,327,608

b. A reconciliation of the total amount of accumulated depreciation at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1994	$ 45,040,784
Depreciation during period	4,501,318
Disposals during period	(709,930)
Reclassifications during period to property held for sale	(597,450)
Balance-December 31, 1994	$ 48,234,722

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years.

2. A reconciliation of the total amount at which real estate owned, accounted for under the financing method, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1994	$327,470,322
Additions during period	41,256
Write-downs	(110,000)
Disposals during period	(6,432,148)
Amortization of unearned income	31,990,262
Minimum lease rentals received	(38,698,906)
Balance-December 31, 1994	$314,260,786

3. The aggregate cost of real estate owned for Federal income tax purposes is $402,624,341.

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1994

4. Net income applicable to the period in Schedule III is reconciled with net earnings as follows:

Net income applicable to financing and operating leases	$ 26,648,827
Add interest income - other	1,438,491
	28,807,318
Deduct expenses not allocated:	
General and administrative expenses	2,791,123
Nonmortgage interest expense	4,731,517
Other	987,979
	8,510,619
Earnings before gain on property transactions	19,576,699
Provision for loss on property	(582,000)
Gain on sales of real estate	4,173,865
Net earnings	$ 23,168,564

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED

YEAR ENDED DECEMBER 31, 1993

1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel operating properties, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1993	$162,201,694
Additions during period	20,347,239
Write downs	(247,000)
Reclassifications during period from financing leases	800,429
Reclassifications during period to assets held for sale	(2,212,215)
Disposals during period	(4,839,754)
Balance-December 31, 1993	$176,050,393

b. A reconciliation of the total amount of accumulated depreciation at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1993	$ 44,105,825
Depreciation during period	3,992,036
Disposals during period	(1,896,524)
Reclassifications during period to property held for sale	(1,160,553)
Balance-December 31, 1993	$ 45,040,784

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years.

2. A reconciliation of the total amount at which real estate owned, accounted for under the financing method, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance-January 1, 1993	$330,322,814
Additions during period	4,130,942
Reclassifications during period	(800,429)
Disposals during period	(116,994)
Amortization of unearned income	32,851,135
Minimum lease rentals received	(38,917,146)
Balance-December 31, 1993	$327,470,322

The aggregate cost of real estate owned for Federal income tax purposes is $398,245,532.

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1993

4. Net income applicable to the period in Schedule III is reconciled with net earnings as follows:

Net income applicable to financing and operating leases	$ 24,390,249
Add interest income - other	2,009,598
	26,399,847
Deduct expenses not allocated:	
General and administrative expenses	2,454,786
Nonmortgage interest expense	5,070,729
Other	495,561
	8,021,076
Earnings before gain on property transactions and extraordinary item	18,378,771
Provision for loss on property	(462,000)
Gain on sales of real estate	4,759,983
Net earnings	$ 22,676,754

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE FINANCING METHOD)
DECEMBER 31, 1995

State	Net Investment
Alabama	$ 10,442,132
California	14,214,432
Connecticut	24,571,019
Florida	25,524,549
Georgia	5,659,651
Illinois	5,582,313
Indiana	660,868
Iowa	1,440,868
Kentucky	218,831
Louisiana	19,908,683
Maryland	6,714,267
Massachusetts	9,324,902
Michigan	14,507,001
Minnesota	1,868,777
Missouri	5,496,349
Nevada	883,647
New Hampshire	4,688,575
New Jersey	14,444,858
New York	13,044,999
North Carolina	6,705,397
Ohio	8,925,929
Oklahoma	125,713
Oregon	53,486,728
Pennsylvania	13,639,937
Rhode Island	1,079,730
South Carolina	308,267
Texas	3,320,904
Virginia	9,206,882
West Virginia	3,521,376
Wisconsin	2,014,945
	$281,532,529

(Continued)

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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND RESERVE FOR DEPRECIATION BY STATE
(ACCOUNTED FOR UNDER THE OPERATING METHOD)
DECEMBER 31, 1995

State	Amount at which Carried at Close of Year	Reserve for Depreciation
Alabama	$ 11,459,096	$ 265,568
Arizona	9,028,875	1,141,233
California	13,574,684	3,861,125
Connecticut	1,549,805	1,070,864
Florida	13,772,389	5,122,422
Georgia	7,750,258	797,977
Illinois	8,850,494	3,065,734
Indiana	8,635,584	2,954,479
Kansas	460,490	-
Kentucky	14,851,240	1,052,938
Louisiana	11,313,683	2,479,819
Maryland	1,864,304	565,688
Massachusetts	2,916,915	1,429,333
Michigan	12,649,448	2,865,957
Minnesota	8,023,299	1,722,126
Missouri	1,946,471	323,448
New Jersey	4,437,341	1,489,539
New York	23,410,097	4,944,535
North Carolina	8,580,112	1,120,666
Ohio	3,635,082	357,702
Oregon	298,451	-
Pennsylvania	10,386,463	6,045,388
South Carolina	3,101,170	907,373
Tennessee	335,367	205,951
Texas	4,302,872	2,810,501
Virginia	1,986,638	975,491
Washington	4,190,631	1,830,477
	$ 193,311,259	$ 49,406,334

(Continued)

Schedule III
Page 11

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE
FINANCING METHOD) DECEMBER 31, 1994

State	Net Investment

Alabama	$ 10,774,730
California	14,865,499
Colorado	403,433
Connecticut	24,956,415
Florida	26,193,440
Georgia	6,611,153
Illinois	5,752,708
Indiana	673,807
Iowa	1,472,651
Kentucky	226,439
Louisiana	20,516,823
Maryland	6,868,375
Massachusetts	29,728,840
Michigan	14,742,376
Minnesota	1,907,837
Missouri	5,605,609
Nevada	903,509
New Hampshire	4,817,099
New Jersey	17,144,885
New York	15,551,206
North Carolina	7,045,840
Ohio	9,184,634
Oklahoma	129,943
Oregon	54,039,101
Pennsylvania	14,088,469
Rhode Island	1,102,181
South Carolina	325,975
Texas	3,391,052
Virginia	9,543,506
West Virginia	3,636,597
Wisconsin	2,056,654
	$314,260,786

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND RESERVE FOR DEPRECIATION BY STATE
(ACCOUNTED FOR UNDER THE OPERATING METHOD)
DECEMBER 31, 1994

State	Amount at which Carried at Close of Year	Reserve for Depreciation
Alabama	$ 1,707,913	$ -
Arizona	8,661,230	780,739
California	13,574,684	3,702,517
Connecticut	1,549,805	1,027,553
Florida	14,474,746	5,007,024
Georgia	8,219,782	612,349
Illinois	8,849,567	2,836,885
Indiana	8,635,584	2,645,196
Kansas	460,490	-
Kentucky	14,470,363	691,180
Louisiana	12,638,536	2,975,581
Maryland	1,864,304	518,658
Massachusetts	2,916,915	1,349,837
Michigan	19,225,223	3,394,696
Minnesota	7,072,018	1,474,020
Missouri	1,946,471	289,549
New Jersey	4,293,403	1,471,681
New York	22,393,357	5,858,402
North Carolina	3,191,685	1,030,096
Ohio	3,635,192	299,308
Oregon	298,451	-

Pennsylvania	10,273,909	5,843,239
South Carolina	3,101,170	857,047
Tennessee	335,368	196,998
Texas	4,302,872	2,730,561
Virginia	1,986,638	948,210
Washington	4,190,632	1,337,294
Canada	1,057,300	356,102
	$ 185,327,608	$ 48,234,722

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE FINANCING METHOD)
DECEMBER 31, 1993

State	Net Investment
Alabama	$ 11,067,060
California	17,888,934
Colorado	544,251
Connecticut	25,308,131
Florida	26,800,208
Georgia	6,769,438
Illinois	5,905,143
Indiana	680,915
Iowa	1,501,626
Kentucky	233,369
Louisiana	21,056,026
Maryland	7,009,645
Massachusetts	30,296,481
Michigan	14,950,167
Minnesota	1,943,843
Missouri	5,568,962
Nevada	921,680
New Hampshire	4,935,607
New Jersey	21,248,834
New York	16,253,711
North Carolina	7,355,915
Ohio	9,415,352
Oklahoma	133,802
Oregon	54,546,141
Pennsylvania	14,491,751
Rhode Island	1,121,598
South Carolina	342,233
Texas	3,534,796
Virginia	9,807,705
West Virginia	3,742,187
Wisconsin	2,094,811
	$327,470,322

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE FINANCING METHOD)
DECEMBER 31, 1993

State	Amount at which Carried at Close of Year	Reserve for Depreciation
Alabama	$ 736,694	$ 87,325
Arizona	8,419,901	432,415
California	12,931,574	3,463,370
Connecticut	1,549,805	965,696
Florida	14,636,201	4,438,112
Georgia	9,238,378	1,029,031
Illinois	8,850,494	2,604,653
Indiana	8,635,584	2,410,912
Kansas	460,490	-
Kentucky	7,860,177	389,534
Louisiana	13,125,806	2,884,385
Maryland	1,238,325	474,818
Massachusetts	2,814,867	1,270,340
Michigan	19,225,223	3,044,807
Minnesota	6,776,010	1,243,786
Missouri	2,335,344	455,296
New Jersey	4,293,403	1,434,545
New York	21,711,796	5,430,334
North Carolina	1,591,685	1,008,960
Ohio	3,876,312	351,221
Oregon	298,451	-
Pennsylvania	10,274,362	5,531,108
South Carolina	3,101,170	806,722
Tennessee	449,753	248,129
Texas	4,384,018	2,650,621
Virginia	1,986,638	920,929
Washington	4,190,632	1,129,111
Canada	1,057,300	334,624
	$ 176,050,393	$ 45,040,784

SIGNATURES

Pursuant to the requirements of Section 13 or 15(a) of the Securities Exchange Act of 1934, AREP has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 31st day of March, 1996.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: AMERICAN PROPERTY INVESTORS, INC.
General Partner

By: /s/ Carl C. Icahn
Carl C. Icahn
Chairman of the Board

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

Signature	Title	Date
/s/Carl C. Icahn Carl C. Icahn	Chairman of the Board (Principal Executive Officer)	March 31, 1996
/s/Alfred Kingsley Alfred Kingsley	Director	March 31, 1996
/s/Mark Rachesky Mark Rachesky	Director	March 31, 1996
/s/William A. Leidesdorf William A. Leidesdorf	Director	March 31, 1996
/s/Jack G. Wasserman Jack G. Wasserman	Director	March 31, 1996
/s/John P. Saldarelli John P. Saldarelli	Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 31, 1996

EXHIBIT INDEX

Exhibit 27 Financial Data Schedule

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