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, 1998

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 5, 1999, 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 $69,130,022.

Based upon the closing price of Preferred Units on March 3, 1999, 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 $7,888,368.

Number of Depositary Units outstanding as of March 5, 1999: 46,098,284.

Number of Preferred Units outstanding as of March 3, 1999: 7,676,607.

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" or "AREH"), 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. As of March 5, 1999, affiliates of Icahn owned 38,083,209 units representing limited partner interests (the "Depositary Units"), representing approximately 82.6% of the outstanding Depositary Units, and 6,642,067 5% cumulative pay in kind redeemable preferred units representing limited partner interests (the "Preferred Units"), representing approximately 86.5% of the outstanding Preferred Units. See Item 12 - "Security Ownership of Certain Beneficial Owners and Management."

As described below, AREP is primarily engaged in the business of acquiring and managing real estate and activities related thereto. On August 16, 1996, an amendment (the "Amendment") to the Partnership's Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement") became effective which permits AREP to make non-real estate related investments. As described below, the Amendment permits AREP to invest in securities issued by companies that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate to further diversify its investments while remaining in the real estate business and continuing to pursue suitable investments in the real estate markets.

General Description of Business

AREP is primarily engaged 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 5, 1999, AREP owned 192 separate real estate assets primarily consisting of fee and leasehold interests in 32 states.

For each of the years ended December 31, 1998, 1997 and 1996, 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, 1998, 1997 and 1996, 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."

AREP's primary investment strategy in recent periods has been to seek to acquire undervalued assets including residential development projects, land parcels for future residential and commercial development, 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, debt or equity securities of companies which may be undergoing restructuring and sub-performing properties that may require active asset management and significant capital improvements.

In addition to holding real property, AREP may consider the acquisition or seek effective control of land development companies and other real estate operating companies which may have a significant inventory of assets under development, as well as experienced personnel. AREP may originate or purchase mortgage loans including non-performing mortgage loans. AREP will often acquire non-performing mortgage loans with a view to acquiring title to or control over 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. 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 August 1996, AREP amended the Partnership Agreement to permit non-real estate investments which, while AREP continues to seek undervalued investment opportunities in the real estate market, will permit it to take advantage of investment opportunities it believes exist outside of the real estate market in order to seek to maximize Unitholder value and further diversify its assets. Investments in non-real estate assets will consist of equity and debt securities of domestic and foreign issuers that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate, and may include, for example, lower rated securities which may provide the potential for higher yields and therefore may entail higher risk. AREP will conduct these activities in such a manner so as not to be deemed an investment company under the Investment Company Act of 1940 (the "1940 Act"). Generally, this means that no more than 40% of AREP's total assets will be invested in securities. In addition, AREP will structure its investments so as to continue to be taxed as a partnership rather than as a corporation under the applicable publicly-traded partnership rules of the Internal Revenue Code. As of March 5, 1999, AREP had invested approximately $175 million to purchase 6,448,200 common shares of RJR Nabisco Holdings Corp. which represents over 10% of AREP's total assets.

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.

Investment Opportunities and Strategies

AREP believes that it will benefit from diversification of its portfolio of assets. By the end of the year 2002, net leases representing approximately 27% of AREP's net annual rentals from its real estate portfolio will be due for renewal, and by the end of the year 2004, net leases representing approximately 37% 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 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. 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 in the future.

Real Estate Investments

As mentioned above, in selecting future real estate 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. Despite the substantial capital pursuing real estate opportunities, management believes that there are still opportunities available to acquire investments that are undervalued. This may include commercial properties, residential and commercial 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 REITS, and debt or equity securities of companies which may be undergoing restructuring and subperforming properties that may require active asset management and significant capital improvements. Management believes that, in the current market, investments requiring some degree of active management or development activity have the greatest potential for growth, both in terms of capital appreciation and the generation of cash flow. In order to further these investment objectives, AREP may consider the acquisition or seek effective control of land development companies and other real estate operating companies which may have a significant inventory of assets under development, as well as experienced personnel. This may enhance AREP's ability to further diversify its portfolio of properties and gain access to additional operating and development capabilities. Such acquisitions may include those from affiliates of the General Partner, provided the terms thereof are fair and reasonable and are approved by the Audit Committee of the Board of Directors of the General Partner (the "Audit Committee"). In this regard, in 1997, an offer was made by AREP acting through its Audit Committee to purchase Bayswater Realty and Capital Corp. ("Bayswater"), a land development company owned by Icahn, which offer was not accepted. While the Audit Committee is considering whether AREP should make another offer for Bayswater and may consider making such offer in Units of AREP (the number of Units could be conditioned upon the Audit Committee's obtaining a fairness opinion), there can be no assurances thereof or whether the transaction will be pursued. AREP has engaged Bayswater to perform certain development, construction management, marketing and sales services with respect to the residential sites being developed by AREP as described below. See Item 13.--"Certain Relationships and Related Transactions--Property Management and Other Related Transactions."

Other real estate investment opportunities AREP may pursue include entering into joint venture arrangements or providing financing to developers for the purpose of developing single-family homes, luxury garden apartments or commercial properties. The loans may provide for a contractual rate of interest to be paid as well as providing for a participation in the profits of the development and/or an equity participation. Additionally, AREP will seek to acquire underperforming 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 negotiate for the ownership or effective control of some or all of the underlying equity in such assets. AREP may also 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 will also seek to acquire assets that are not in financial distress but due to the particular circumstances of their ownership, use or location, present substantial opportunities for development or long-term growth. AREP may also consider acquiring additional net-leased properties at appropriate yields or to effectuate tax-free exchanges.

AREP has invested and expects to invest in undeveloped land and development properties. In particular, AREP expects to continue to pursue this year the development of two residential sites it owns in Armonk, New York and East Hampton, New York. The Armonk site is comprised of approximately 43 residential building lots, and the East Hampton site subdivision has been approved for 16 residential building lots. Also, in 1998, AREP acquired residential development land in connection with the acquisition of the New Seabury Resort in Cape Cod, Massachusetts. Undeveloped land and development properties involve more risk than properties on which development has been completed. Undeveloped land and development properties do not generate any operating revenue, while costs are incurred to develop the properties. In addition, undeveloped land and development properties incur expenditures prior to completion, including property taxes and development costs. Also, construction may not be completed within budget or as scheduled and projected rental levels or sales prices may not be achieved and other unpredictable contingencies beyond the control of AREP could occur. AREP will not be able to recoup any of such costs until such time as these properties, or parcels thereof, are either disposed of or developed into income-producing assets. Accordingly, the greater the length of time it takes to develop or dispose of these properties, or such parcels, the greater will be the costs incurred by AREP without the

benefit of income from these properties, which may adversely affect the ability of AREP to successfully develop such properties. Furthermore, the ultimate disposition price of these properties may be less than the costs incurred by AREP with respect thereto.

AREP may continue to purchase real estate limited partnership interests by pursuing negotiated agreements or commencing tender offers. The illiquidity of many of these securities and their "informal" trading market enable entities such as AREP to purchase these interests at what may be significant discounts to the value of their underlying real estate in many instances. It should also be noted, however, that such illiquidity may adversely affect AREP's ability to profit from these investments in the near term, although AREP believes that such investments provide opportunities for long term appreciation.

Further, as reported generally, recent global economic and monetary conditions, especially in Asia, may create opportunities for value-added investors in those markets. AREP has begun to consider additional opportunities in foreign markets, but there can be no assurance that any such transactions will be pursued or consummated. It should be noted that such investments may be subject to additional considerations relating to foreign political and regulatory risks, as well as currency and exchange risks, which may affect the liquidity and value of any such investments in the near term, although AREP believes that such investments provide opportunities for long term appreciation.

In addition, AREP has made investments in the gaming industry and will consider additional investment opportunities in the gaming industry. See Item 1 - - Recent Acquisitions - Investment in Mortgages and Notes Receivable for a further discussion on the Stratosphere Tower, Casino and Hotel transaction, as well as a discussion on AREP's investments in the Sands Hotel and Casino and the Claridge Hotel and Casino. As described herein, AREP, the General Partner, and the directors and officrs of the General Partner are currently in the process of pursuing gaming applications to obtain licenses from the Nevada Gaming Authority. It should be noted that investments in the gaming industry involve significant risks, including those relating to competitive pressures and political and regulatory considerations. In recent years, there have been several new gaming establishments opened as well as facility expansions, providing increased supply of competitive products and properties in the industry, which may adversely affect the operating margins and investment returns. As new openings and expansion projects have been completed, supply has grown more quickly than demand in some areas, and competition has increased. Likewise, an increase in supply often leads to increases in complimentary and promotional expenses in the industry. AREP believes that these market conditions will lead some gaming properties to become available for restructuring or purchase and will create potential investments for opportunistic buyers such as AREP, and AREP intends to pursue such additional investments in the gaming industry, including the possible acquisition of additional interests in the Stratosphere Tower, Casino and Hotel from affiliates of the General Partner. Any such aquisition by AREP of additional interests in Stratosphere may be made in exchange for Units in AREP, provided the terms thereof are fair and reasonable to AREP. While the increase in supply and competition may provide additional investment opportunities for investors such as AREP, such investments may require additional capital expenditures and restructurings (such as in the case of Stratosphere) and there can be no assurance that such investments will not be adversely affected by such pressures or prove to be successful. Furthermore, federal, state and local jurisdictions from time to time consider legislation regarding the gaming industry which could adversely impact gaming operations. AREP believes, however, that investments in the gaming industry provide AREP with opportunities for long term appreciation.

While AREP believes opportunities in real estate related acquisitions continue to remain available, such acquisition opportunities for value-added investors are competitive to source and the increased competition may have some impact on the spreads and the ability to find quality assets that provide returns that are sought. These investments may not be readily financeable and may not generate immediate positive cash flow for AREP. As such, they require AREP to maintain a strong capital base in order to react quickly to these market opportunities as well as to allow AREP the financial strength to develop or reposition these assets. 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, AREP intends to focus on assets that it believes may provide opportunities for long-term growth and further its objective to diversify its portfolio.

Non-Real Estate Related Investments

In selecting future investments, AREP may, while remaining in the real estate business and continuing to pursue suitable investments for AREP in the real estate markets, invest a portion of its funds available for investment in securities of issuers that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate. Such investments may include equity and debt securities of domestic and foreign issuers. The investment objective of AREP with respect to such investments will be to purchase undervalued securities, so as to maximize total returns consisting of current income and/or capital appreciation. Undervalued securities are those which AREP believes may have greater inherent value than indicated by their then current trading price and/or may lend themselves to "activist" shareholder involvement. These securities may be undervalued due to market inefficiencies, may relate to opportunities wherein economic or market trends have not been identified and reflected in market value, or may include those in complex or not readily followed securities. Less favorable financial reports, lowered credit ratings, revised industry forecasts or sudden legal complications may result in market inefficiencies and undervalued situations. As is the case with real estate related investments, with regard to non-real estate related investments, AREP may determine to establish an ownership position through the purchase of debt or equity securities of such entities and then negotiate for the ownership or effective control of some or all of the underlying equity in such assets.

The equity securities in which AREP may invest may include common stocks, preferred stocks and securities convertible into common stocks, as well as warrants to purchase such securities. The debt securities in which AREP may invest may include bonds, debentures, notes, mortgage-related securities and municipal obligations. Certain of such securities may include lower rated securities which may provide the potential for higher yields and therefore may entail higher risk. In addition, AREP may engage in various investment techniques, such as options and futures transactions, foreign currency transactions and leveraging for either hedging or other purposes.

AREP will conduct its investment activities in such a manner so as not to be deemed an investment company under the 1940 Act. Generally, this means that AREP does not intend to enter the business of investing in securities and that no more than 40% of AREP's total assets will be invested in securities. The portion of AREP's assets invested in each type of security or any single issuer or industry will not be limited. Investments may be made directly by AREP or indirectly through entities in which it has an interest.

Partnership Distributions

On March 29, 1999, AREP announced that no distributions on its Depositary Units are expected to be made in 1999. No distributions were made in 1998, 1997 or 1996. 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. By the end of the year 2002, net leases representing approximately 27% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2004, 37% of such rentals will be due for renewal. In making its decision, AREP also considered the number of properties that are leased to retail tenants (approximately 34% of AREP's net annual rentals from its portfolio) some of which are experiencing cash flow difficulties and restructurings. Further, AREP noted that the types of investments AREP is pursuing, including assets that may not be readily financeable or generating positive cash flow, such as development properties, non-performing mortgage loans or securities of companies which may be undergoing restructuring or require significant capital investments, require AREP to maintain a strong capital base in order to own, develop and reposition those assets. AREP believes that it should continue to gold and invest, rather than distribute, cash. 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."

On March 31, 1998, AREP distributed to holders of record of its Preferred Units as of March 13, 1998 approximately 365,553 additional Preferred Units. Pursuant to the terms of the Preferred Units, on February 23, 1999, AREP declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable March 31, 1999 to holders of record as of March 15, 1999.

Recent Acquisitions

Investment in Mortgages and Notes Receivable

In June, 1997 AREP invested approximately $42.8 million to purchase approximately $55 million face value of 14 -1/4% First Mortgage Notes ("Notes"), due May 15, 2002, issued by Stratosphere Corporation ("Stratosphere"), which had approximately $203 million of such notes outstanding. In July and September 1998, AREP invested approximately $17.9 million to purchase approximately $43.5 million face value of additional Notes. An affiliate of Icahn owned approximately $83.3 million face value of the Notes. Stratosphere owns and operates the Stratosphere Tower, Casino & Hotel, a destination resort complex located in Las Vegas, Nevada, containing a 97,000 square foot casino and 1,444 hotel rooms and suites and other attractions.

Stratosphere and its wholly owned subsidiary Stratosphere Gaming Corp. filed voluntary petitions on January 27, 1997, for Chapter 11 Reorganization pursuant to the United States Bankruptcy Code (the "Bankruptcy Code"). Stratosphere filed a Second Amended Plan of Reorganization which provided for the holders of the First Mortgage Notes to receive 100% of the equity in the reorganized entity and therefore provided the Company and the General Partner's affiliate with a controlling interest. Such plan was approved by the Bankruptcy Court on June 6, 1998 but was not effective until certain governmental approvals were obtained including, among other things, certain licenses from the Nevada Gaming Authority.

AREP, the General Partner, and the directors and officers of the General Partner are currently in the process of pursuing gaming applications to obtain licenses from the Nevada Gaming Authority. AREP understands that the application process may take a number of months. AREP has no reason to believe that it will not obtain its necessary license; however, the licensing application of the affiliate of Icahn was reviewed and approved by the authorities earlier than AREP's application. In an effort to facilitate the consummation of the Stratosphere reorganization process, AREP entered into an agreement (the "Transfer/Repurchase Agreement") to transfer its interests in Stratosphere to an affiliate of Icahn at a price equal to AREP's cost for such Notes. However, the affiliate of Icahn is obligated to sell back to AREP and AREP is obligated to repurchase such interest in Stratosphere at the same price (together with a commercially reasonable interest factor), when the appropriate licenses are obtained by AREP.

In October 1998, the affiliate of the General Partner obtained its license and in accordance with the Transfer/Repurchase Agreement AREP received approximately $60.7 million for its Stratosphere interests. Stratosphere's Second Amended Plan of Reorganization became effective on October 14, 1998. In addition to Icahn becoming Chairman of the Board of Stratosphere, AREP received the right to appoint two members to Stratosphere's board. As mentioned above, AREP is continuing the process of obtaining licensing which will permit it to repurchase its interest in Stratosphere along with its proportionate share of all sale proceeds, stock rights, acquired shares and other benefits, if any, that may have accreted to or been obtained in connection with such Stratosphere equity interests while held by the affiliate of Icahn under the Transfer/Repurchase Agreement.

As described above in "Real Estate Investments", AREP may consider additional investments in the gaming industry, as it believes additional opportunities may become available due to market conditions and other factors. Upon approval of certain licenses by the Nevada Gaming Authority, AREP will reacquire its interest in Stratosphere under the Transfer/Repurchase Agreement and may consider the possibility of acquiring the interest in Stratosphere held by the affiliate of the General Partner. Any such acquisition by AREP of the General Partner's affiliate's interest in Stratosphere may be made in exchange for Units in AREP and will be subject to review and approval by the Audit Committee.

At December 31, 1998 AREP continues to reflect in its financial statements, its equity interest in Stratosphere and the liability to repurchase its interest. See Note 7 to the Financial Statements contained herein.

During 1998, AREP acquired an interest in the Sands Hotel and Casino (the "Sands") located in Atlantic City, New Jersey by purchasing the principal amount of $18.7 million of First Mortgage Notes issued by GB Property Funding Corp. ("GB Property"). GB Property was organized as a special purpose entity for the borrowing of funds by Greate Bay Hotel and Casino, Inc. ("Greate Bay"). The purchase price for such notes was approximately $15.1 million. An affiliate of the General Partner also has an investment in notes of GB Property. $185 million of such notes were issued, which bear interest at 10.875% per annum and are due on January 15, 2004.

Greate Bay owns and operates the Sands, a destination resort complex, containing a 76,000 square foot casino and 532 hotel rooms and other amenities. On January 5, 1998, GB Property and Greate Bay filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code to restructure its long term debt.

In January, 1998, AREP acquired an interest in the Claridge Hotel and Casino (the "Claridge Hotel") located in Atlantic City, New Jersey by purchasing the principal amount of $15 million of First Mortgage Notes of the Claridge Hotel and Casino Corporation (the "Claridge Corporation"). The purchase price of such notes was approximately $14.1 million. $85 million of such notes were issued, which bear interest at 11.75% payable semi-annually and are due February 1, 2002. In August 1998 and March 1999, AREP received semi-annual interest payments. An affiliate of the General Partner also has an investment in such notes of the Claridge Corporation.

The Claridge Corporation through its wholly-owned subsidiary, the Claridge at Park Place, Incorporated, operates the Claridge Hotel, a destination resort complex, containing a 59,000 square foot casino on three levels and 502 hotel rooms and other attractions.

AREP has classified the Claridge Corporation and GB Property Notes as available for sale for accounting purposes. These investments are carried at fair market value on the Consolidated Balance Sheet. At December 31, 1998 unrealized holding losses of approximately $6.8 million are reflected in Partners Equity.

See Item 1 - "Investment Opportunities and Strategies -- Real Estate Investments," above, for a discussion of certain considerations relating to the gaming industry.

In 1998, AREP purchased approximately $78.2 million of senior debt of Philip Services Corp. and Philip Services (Delaware), Inc. ("Philips") for approximately $35.2 million. In addition, an affiliate of Icahn purchased approximately $80 million of senior debt of Philips and also owns common shares of Philips. Philips is a Canadian-based company in the waste recovery business and its common shares are listed on the New York Stock Exchange. In 1999, AREP purchased an additional $10.2 million of Philips debt for approximately $4.4 million.

Investment in Real Estate Assets

AREP acquired mortgages for approximately $16 million secured by certain real property in Cape Cod, Massachusetts. The properties are part of a master planned community and golf resort known as New Seabury. The debtor had filed a Chapter 11 petition in the United States Bankruptcy Court, District of Massachusetts. In June 1998, a Chapter 11 plan of reorganization proposed by AREP was approved by the Bankruptcy Court. Under the plan, in late July 1998, AREP acquired substantially all of the debtor's assets including two golf courses, other recreational facilities, a villa rental program, condominium and time share units and land for future development. AREP assumed mortgage debt of approximately $8.5 million (subsequently repaid) and made other payments to creditors of approximately $3.5 million. Total costs of approximately $28 million are classified as approximately $8.9 million in "Development Properties", $17.4 million in"Hotel and resort properties" and $1.7 million in "other assets" on the Consolidated Balance Sheet.

On August 5, 1998, AREP purchased an industrial building located in Hebron, Kentucky. The property is net leased to United Parcel Service ("UPS"). The purchase price was $21,080,000 which included the simultaneous funding of a mortgage in the amount of $19,480,000. The lease term, which commenced on June 1, 1998, is for an initial term of ten years at $1,861,240 per year for the first five years and $2,138,304 per year in years six to ten. There are three five year renewal periods for increased rentals.

In August 1998, AREP purchased a manufacturing facility located in Germantown, Wisconsin. The property is net leased to Stone Container Corporation. The purchase price was $9,025,000 cash. The lease term, which commenced May 1, 1998, is for eleven years at approximately $807,150 per year increasing 2% annually. There is one five year renewal period at approximately $1,013,429 per year increasing 3% annually.

Investment in Real Estate Limited Partnership Units

On July 17, 1996, AREP and Bayswater Realty and Capital Corp. ("Bayswater"), an affiliate of Icahn, became partners of Boreas Partners, L.P. ("Boreas"), a Delaware limited partnership. AREP's total partnership interests in Boreas was 70%. Boreas together with unaffiliated third parties entered into an agreement and became limited partners of Raleigh Capital Associates, L.P. ("Raleigh") for the purpose of making a tender offer for outstanding limited partnership and assignee interests of Arvida/JMB Partners, L.P. ("Arvida") a real estate partnership. Approximately 106,000 units in Arvida were acquired by Raleigh. Boreas and an affiliated general partner acquired 100% of the interests in Raleigh during 1998 Thereafter, on November 6, 1998, Raleigh entered into a Buy/Sell Agreement (the "Buy/Sell Agreement") with St. Joe Company ("St. Joe") and Arvida/JMB Managers, Inc. ("JMB Managers") regarding Arvida. In connection with the Buy/Sell Agreement, St. Joe and JMB Managers acquired all the limited partnership interests in Arvida owned by Raleigh and AREP received approximately $33 million of proceeds before payment of related indebtedness. AREP recorded a gain of approximately $4.4 million on the disposition of Arvida units.

In 1998, AREH formed Olympia Investors, L.P. ("Olympia"), a Delaware limited partnership. In March 1998, Olympia initiated tender offers to purchase units of limited partnership interest in Integrated Resources High Equity Partners - Series 85 ("HEP 85"), in High Equity Partners L.P. - Series 86 ("HEP 86") and in High Equity Partners L.P. - Series 88 ("HEP 88"). In September 1998, AREP paid approximately $7.5 million to the tender agent for 30,842 units of HEP 85; 32,104 units of HEP 86; and 14,687 units of HEP 88.

Concurrently with the tender offer AREP entered into an agreement with an affiliate of the general partner of HEP 85, HEP 86 and HEP 88 which gave them a purchase option for 50% of the tendered units at Olympia's tender price plus expenses. AREP subsequently received approximately $4 million for half of the tendered units.

Through December 31, 1998, AREP participated in five other tender offers for limited partnership units.

Investment in RJR

In 1996, AREP purchased 3,121,700 shares of RJR Nabisco Holdings Corp. ("RJR"), representing approximately 1.1% of the total outstanding RJR common shares, at a total cost of approximately $83 million and at an average cost per share of $26.46 per share. Icahn owned (through affiliates) an additional 16,808,100 shares of RJR. In February 1997, AREP sold its entire interest in RJR

for net proceeds of approximately $112 million realizing a gain of approximately $29 million. During 1998 and the first quarter of 1999, AREP purchased 6,448,200 shares of RJR representing approximately 2% of the total outstanding RJR common shares, for approximately $175 million. As of January 22, 1999, affiliates of

Icahn owned 18,551,800 shares of RJR representing approximately 5.7% of the total outstanding RJR common shares. The investment in RJR is reflected on the balance sheet as "Marketable Equity Securities," classified as available for sale, which is carried at fair market value at December 31, 1998. Unrealized holding gain of approximately $16 million is reflected in "Partners Equity."

Financing Activities

In May 1998, AREP made its final payment of approximately $11,308,000 under its unsecured note agreements with The Prudential Insurance Company of America. During 1998, AREP also had approximately $3,500,000 in additional maturing balloon mortgages due, all of which was repaid. Approximately $8,700,000 of additional balloon payments are due during 1999 and 2000. AREP may seek to refinance a portion of these maturing mortgages, although it does not expect to refinance all of them and may repay them from cash flow and reserves created from time to time, thereby reducing cash flow otherwise available for other uses.

AREP is continuing to seek opportunities to refinance upon favorable terms and sell certain of its properties to generate proceeds for future investments. 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.

Leasing Activities

In 1998, 25 leases covering 25 properties and representing approximately $2,123,000 in annual rentals expired. Fifteen of these leases, originally representing approximately $595,000 in annual rental income were re-let or renewed for approximately $617,000 in annual rentals. Such renewals are generally for a term of five years. Five properties with an approximate annual rental income of $690,000 are currently being marketed for sale or lease. Three properties with annual rental income of $138,000 were purchased by their tenants pursuant to the exercise of purchase options. Two properties with approximate annual rental income of $700,000 were sold.

In 1999, 23 leases covering 23 properties and representing approximately $1,775,000 in annual rentals are scheduled to expire. Five of these leases, originally representing approximately $735,000 in annual rental income, have been or will be re-let or renewed for approximately $740,000 in annual rentals. Such renewals are generally for a term of five years. Nine properties, with an approximate annual rental income of $375,000 will be marketed for sale or lease when the current lease term expires. Four properties with approximate annual rentals of $251,000 will be purchased by tenants pursuant to lease options. The status of five leases with approximate annual rental income of $414,000 is uncertain at this time.

By the end of the year 2002, net leases representing approximately 27% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2004, net leases representing approximately 37% 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 the property. 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 34% 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 a downturn in the retail markets, could have an adverse impact on AREP's net cash flow.

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 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, ten have rejected their leases, affecting 29 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).

On June 24, 1998, the Grand Union Company ("Grand Union"), a tenant leasing five properties owned by AREP filed a prepackaged voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. Grand Union emerged from Chapter 11 protection on or about August 17, 1998 and affirmed all of the leases. These five properties' annual rentals total approximately $1,294,000.

In June 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 emerged from bankruptcy in February, 1999 and affirmed three of the leases and assigned the fourth. At December 31, 1998, the carrying value of these four properties was approximately $6,677,000. One of the properties is encumbered by a nonrecourse mortgage payable of approximately $727,000.

On September 18, 1995, Caldor Corp. ("Caldor"), a tenant leasing 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. In January, 1999, Caldor announced it would liquidate its holdings and close its stores. The tenant has not yet determined whether it will exercise its right to reject or affirm the lease which will require an order of the Bankruptcy Court. At December 31, 1998, the property has a carrying value of approximately $1,798,000 and is unencumbered by any mortgage.

On September 24, 1996 Best Products, a tenant leasing 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 was approximately $508,000. The tenant has exercised its right to reject the lease, effective April 30, 1997, which has been approved by the Bankruptcy Court. At

December 31, 1998, the property was vacant and had a carrying value of approximately $3,304,000 and is unencumbered by any mortgage.

For a description of certain other tenant and mortgagor bankruptcies affecting AREP, please refer to Notes 10 and 19 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 site assessment, which involves record review, visual site assessment and personnel interviews, but does not involve invasive procedures such as air and soil sampling or groundwater analysis. There can be no assurance, however, that these evaluations will reveal all potential liabilities or that future property uses or conditions or changes in applicable environmental laws and regulations or activities at nearby properties will not result in the creation of environmental liabilities with respect to a property.

Additionally, pursuant to the Resource Conservation and Recovery Act 42 U.S.C. Sections 9601, et seq. and the regulations promulgated thereunder ("RCRA") certain owners, operators and other parties in control of a property that has a non-exempt underground storage tank ("UST") were required to remove, replace, retrofit or take such tanks out of service by December 22, 1998. AREP notified its tenants of the RCRA requirements. AREP believes that under the terms of its net leases with its tenants, the cost of, and obligation to comply with, this RCRA requirement generally would be the responsibility of its tenant. Furthermore, with respect to vacated properties and prior lease terminations, there cannot be any assurance that AREP would not be deemed responsible for this RCRA requirement. However, there also can be no assurance that a tenant will bear the costs of, or undertake compliance with, this RCRA requirement.

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 Phase I Environmental Site Assessments completed on most of its properties. AREP believes that under the terms of its net leases with its tenants, the costs of any environmental problems 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. AREP has notified the responsible tenants to attempt to ensure that they cause any required investigation and/or 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. Therefore, 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 $2-3 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. AREP is in the process of updating its Phase I Site Assessments for certain of its environmentally sensitive properties including properties with open RCRA requirements. Approximately sixty-five updates are expected to be completed in 1999 with another forty-five scheduled for the year 2000.

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 obvious indications of environmental conditions which would potentially expose AREP to liability and to ensure that the physical condition of 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.

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 many 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.

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

Eighteen 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 leasing and selling remains strong. As previously discussed, many of AREP's tenants have rights to renew at prior rental rates. AREP's experience is that tenants will renew below market leases and permit leases that are less marketable or at above market rents to expire, making it difficult for AREP to re-let or sell on favorable terms properties vacated by tenants. The real estate market continues to be weak in certain areas of the country, particularly in the retail category. The impact on the retail markets and ongoing corporate consolidations have contributed to increasing vacancy rates and oversupply for retail tenants. 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, including that from a number of investment funds and REITS that have raised additional capital for such investments, resulting in, among other things, higher prices for such investments. Such investments have become competitive to source and the increased competition may have an adverse impact on the spreads and AREP's ability to find quality assets at appropriate yields. 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.

Item 2. Properties.

As of March 5, 1999, AREP owned 192 separate real estate assets (primarily consisting of fee and leasehold interests and, to a limited extent, interests in real estate mortgages) in 32 states. These properties are generally net-leased to single corporate tenants. Approximately 90% of AREP's properties are currently net-leased, 4% are operating properties, 2% are in the process of being developed and 4% are vacant and being marketed for sale or lease. See Note 11 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	87	$4.86(1)
Industrial	21	$2.33(1)
Office	29	$6.69(1)
Supermarkets	19	$3.36(1)
Banks	6	$4.10(1)
Other:		
Properties That Collateralize Purchase Money Mortgages	9	N/A
Land	13	N/A
Truck Terminals	4	$3.63(1)
Hotels	3	N/A
Apartment Complexes	1	N/A

(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	86
Northeast	42
South Central	9
Southwest	12
North Central	39
Northwest	4

From January 1, 1998 through March 5, 1999, AREP sold or otherwise disposed of 17 properties. In connection with such sales and dispositions, AREP received an aggregate of approximately $25,300,000 in cash, net of closing costs and amounts utilized to satisfy mortgage indebtedness which encumbered such properties. As of December 31, 1998, AREP owned seven properties that were being actively marketed for sale. The aggregate net realizable value of such properties is estimated to be approximately $3,893,000.

On February 19, 1998, AREP sold a property located in Palo Alto, California to its tenant, Lockheed Missile and Space Company, Inc. for a selling price of approximately $9,400,000. As a result, AREP recognized a gain of approximately $4,130,000 in the year ended December 31, 1998.

On May 21, 1998, AREP sold a property located in Atlanta, Georgia tenanted by AT&T Corp. for a selling price of $8,600,000. As a result, AREP recognized a gain of approximately $1,260,000 in the year ended December 31, 1998.

In accordance with a previously executed option agreement, AREP sold a property located in Broomal, Pennsylvania to its tenant Federal Realty Investment Trust. The consideration received by AREP was a satisfaction of mortgage payable in the amount of approximately $8,500,000. A gain of approximately $2.6 million was recorded in the year ended December 31, 1998.

For each of the years ended December 31, 1998, 1997 and 1996, 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, 1998, 1997 and 1996, 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 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.

On December 5, 1997 AREP executed a mortgage loan with Principal Mutual Life Insurance Company in the original principal amount of approximately $46.3 million, secured by, among other things, a first deed of trust, security agreement and assignment of rents on the PGEC Property. The loan replaced the existing mortgage loan on the complex with an outstanding principal balance of approximately $24.2 million, bearing interest at 8.5% and maturing in 2002.

The interest rate is fixed at 7.51%. The entire net annual rent payable by PGEC of approximately $5,137,000 is required to be applied toward the debt service on the loan. The refinancing has a maturity date of September 10, 2008, at which time a remaining principal payment of approximately $20 million will be due from AREP.

Item 3. Legal Proceedings.

Unitholder Litigation

On November 18, 1998, Ruth Ellen Miller filed a Class Action Complaint bearing the caption Ruth Ellen Miller, on behalf of herself and all others similarly situated v. American Real Estate Partners, L.P., High Coast Limited Partnership, American Property Investors, Inc., Carl C. Icahn, Alfred Kingsley, Mark H. Rachesky, William A. Leidesdorf, Jack G. Wasserman and John P. Saldarelli in the Delaware Chancery Court in New Castle County (Civil Action No. 16788NC) (the "Complaint"). The Complaint purports to state claims on behalf of a putative class of all holders of Depositary Units sounding in breach of fiduciary duty, aiding and abetting breaches of fiduciary duty, injunction and breach of the Partnership Agreement. As of March 5, 1999, the complaint has not yet been served on any of the defendants.

Plaintiff alleges that all defendants, in breach of their fiduciary duties to AREP, have caused AREP to engage in self-dealing or self-interested transactions which inure to the benefit of defendants. Plaintiff's claims are alleged to arise out of two transactions: the February 1995 Rights Offering effectuated pursuant to a purportedly false and misleading prospectus; and

Icahn's alleged use of his voting control to change the business purpose of AREP by amending the Partnership Agreement to permit AREP to make "non-real estate related investments," including investments in entities owned or controlled by Icahn.

The Complaint seeks to have Ms. Miller appointed as class representative and that the putative class be certified. The Complaint also seeks an unspecified amount in damages and injunctive relief: (i) dissolving the Partnership; (ii) enjoining API from continuing to act as general partner of the Partnership; (iii) enjoining the Partnership from engaging in any transaction in which Icahn has either a direct or indirect interest, absent an affirmative vote of a majority of the outstanding Depositary Units held by the putative class; and (iv) ordering API to exercise its fiduciary obligations. Further, the plaintiff seeks to enjoin AREP from engaging in any transactions in which Icahn has either a direct or indirect interest absent an affirmative vote by a majority of the outstanding Depositary Units held by the class, as well as damages resulting from the alleged breach of the partnership agreement for an unquantified amount. The Complaint also seeks costs and attorneys' fees. Management believes plaintiff's claims are without merit and intends to vigorously defend against them.

On or about September 9, 1997, two limited partners in AREP brought a derivative action against AREP, the General Partner, its directors and one of its officers, alleging breach of fiduciary duties by the defendants in connection with, inter alia, AREP's investments in Arvida and Stratosphere, Amanda & Kimberly Kahn v. Carl C. Icahn, et al., C.A. No. 15916 (Del. Ch.). Plaintiffs claimed that defendant Icahn improperly diverted opportunities to participate in these investments from AREP to himself. Plaintiffs sought damages arising from these alleged breaches of fiduciary duty, attorneys fees and other relief. On November 12, 1998, the Court of Chancery of the State of Delaware granted the defendants' motion to dismiss all of plaintiffs' claims against the defendants. Plaintiffs served a notice of appeal upon

defendants on December 11, 1998. On March 11, 1999, AREP received a copy of plaintiffs' opening brief and on March 24, 1999 all of the defendants filed a Motion to Affirm in the Delaware Supreme Court. AREP believes that the plaintiffs' appeal has no merit and it intends to vigorously oppose this appeal.

Environmental Litigation

Lockheed, a tenant of a formerly-held 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 previously 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 would attempt to have allocated to AREP and to AREP's ground-lessor (which may have sought to claim a right of indemnity against AREP) approximately 9% and 17%, respectively, of the total remediation costs. In April 1995 Lockheed began ground water remediation at the leasehold property.

On February 19, 1998, the property was conveyed by AREP to Lockheed for a purchase price of $9,400,000. In connection with the sale, Lockheed executed a release and indemnity in favor of AREP and a stipulation dismissing the environmental arbitration, as against AREP. Leland Stanford Junior University (the fee owner/ground lessor) also executed a release in favor of AREP.

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 is presently engaged in discussions to settle this matter and has made an offer of $10,000 toward an aggregate settlement, although there can be no assurances that such offer will be accepted.

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

No matters were submitted to a vote of Unitholders during 1998.

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, 1997 through December 31, 1998 is as follows:

Quarter Ended:	High	Low
March 31, 1997	11.75	9.125
June 30, 1997	14.25	9.875
September 30, 1997	13.625	10.625
December 31, 1997	11.375	9.4375
March 31, 1998	$11.50	$9.8125
June 30, 1998	10.75	9.75
September 30, 1998	10.25	8.0625
December 31, 1998	10.50	7.125

On March 5, 1999, 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 $8.625.

As of March 5, 1999, there were approximately 7,000 record holders of the Depositary Units. As of March 2, 1998, there were approximately 9,000 record holders. See Item 12. "Security Ownership of Certain Beneficial Owners and Management" for a discussion of the 1998 Tender Offer made by affiliates of Icahn. Since a number of Unitholders participated in the 1998 Tender Offer and affiliates of Icahn now hold approximately 82.6% of the Depositary Units outstanding, there can be no assurance that there will not be a reduction in the liquidity and volume of activity in the trading market for the Depositary Units.

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

Distributions

On March 29, 1999, the Board of Directors of the General Partner announced that no distributions are expected to be made in 1999. AREP believes that it should continue to hold and invest, rather than distribute, cash. 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. By the end of the year 2002, net leases representing approximately 27% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2004, 37% of such rentals will be due for renewal. Another factor that AREP took into consideration was that net leases representing approximately 34% 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. AREP further stated that it continues to believe that excess cash should be used to enhance long-term Unitholder value through the improvement of its existing assets, the support of AREP's debt and property obligations, and selected investment in assets

and companies with assets undervalued by the market as appropriate opportunities arise. AREP believes that, in addition to acquiring development properties, non-performing mortgage obligations and securities of companies which may be undergoing restructuring or with real estate assets requiring significant capital investments, it should diversify its portfolio and seek to make acquisitions of land development companies and other real estate operating companies which may have significant assets under development and may enhance its ability to develop and manage these properties. These types of investments may involve debt restructuring, capital improvements and active asset management, and by their nature 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. See Item 7 -- "Management's Discussion and Analysis of the Financial Condition and Results of Operations - Capital Resources and Liquidity."

As of March 1, 1999, there were 46,098,284 Depositary Units and 7,676,607 Preferred Units outstanding. Trading in the Preferred Units commenced March 31, 1995 on 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 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, 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.

On March 31, 1998, AREP distributed to holders of record of its Preferred Units as of March 13, 1998, approximately 365,553 additional Preferred Units. Pursuant to the terms of the Preferred Units, on February 23, 1999, AREP declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable March 31, 1999 to holders of record as of March 15, 1999.

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. In October 1998, AREP repurchased 100,000 Depositary Units for $737,500. As of March 5, 1999, AREP had purchased 1,137,200 Depositary Units at an aggregate cost of approximately $11,921,000. Management recently has not been acquiring Depositary Units for AREP, although AREP may from time to time acquire additional Depositary Units.

Item 6. Selected Financial Data.

(Dollars in Thousands Except Per Unit Amounts)
Year Ended December 31,

	1998	1997*	1996*	1995*	1994*
Total revenues	$ 93,306	$ 70,918	$ 71,774	$ 69,920	$ 61,551
Earnings before property and securities transactions	$ 58,371	$ 41,020	$ 34,240	$ 30,833	$ 19,577
Gain on sales and disposition of real estate	9,065	16,051	24,517	5,091	4,174
Gain on sale of limited partnership interests	4,382				
Gain on sales of marketable equity securities	--	29,188	--	--	--
Provision for loss on mortgages receivable	--	(9,790)	--	--	--
Provision for loss on real estate	(1,180)	(1,085)	(935)	(768)	(582)
Net earnings	$ 70,638	$ 75,384	$ 57,822	$ 35,156	$ 23,169
Net earnings per limited partnership unit:					
Basic:					
Earnings before property and securities transactions	$ 1.16	$ 1.19	$ 1.27	$ 1.30	$ 1.39
Net gain from property and securities transactions	.26	1.08	.90	.19	.25
Net earnings	$ 1.42	$ 2.27	$ 2.17	$ 1.49	$ 1.64
Weighted average limited partnership units outstanding	46,173,284	31,179,246	25,666,640	22,703,180	13,812,800
Diluted:					
Earnings before property and securities transactions	$ 1.06	$ 1.16	$ 1.20	$ 1.17	$ 1.39
Net gain from property and securities transactions	.22	.97	.82	.16	.25
Net earnings	$ 1.28	$ 2.13	$ 2.02	$ 1.33	$ 1.64
Weighted average limited partnership units and equivalent partnership units outstanding	54,215,339	34,655,395	28,020,392	27,538,840	13,812,800
Distributions to partners	$ --	$ --	$ --	$ --	$ --
At year end:					
Real estate leased to others	$ 381,554	$ 383,392	$ 357,184	$ 412,075	$ 437,699
Hotel and resort operating properties	$ 22,037	$ 5,002	$ 12,955	$ 13,362	$ 13,654

Investment in treasury bills	$ 363,884	$ 372,165	$ --	$ --	$ --
Marketable equity securities	$ 190,775	$ --	$ 106,172	$ --	$ --
Mortgages and notes receivable	$ 67,613	$ 59,970	$ 15,226	$ 15,056	$ 8,301
Development properties	$ 12,830	$ 3,860	$ --	$ --	$ --
Total assets	$ 1,135,915	$ 991,230	$ 641,310	$ 620,880	$ 492,868
Senior indebtedness	$ --	$ 11,308	$ 22,616	$ 33,923	$ 45,231
Mortgages payable	$ 173,559	$ 156,433	$ 115,911	$ 163,968	$ 174,096
Partners' equity	$ 888,499	$ 809,325	$ 485,559	$ 404,189	$ 259,237

* 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.

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature, are intended to be, and are hereby identified as, "forward looking statements" for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended by Public Law 104-67.

Forward-looking statements regarding management's present plans or expectations involve risks and uncertainties and changing economic or competitive conditions, as well as the negotiation of agreements with third parties, which could cause actual results to differ from present plans or expectations, and such differences could be material. Readers should consider that such statements speak only as to the date hereof.

General

AREP believes that it will benefit from diversification of its portfolio of assets. To further its investment objectives, AREP may consider the acquisition or seek effective control of land development companies and other real estate operating companies which may have a significant inventory of quality assets under development, as well as experienced personnel. From time to time AREP has discussed and in the future may discuss and may make such acquisitions from Icahn, the General Partner or their affiliates, provided the terms thereof are fair and reasonable to AREP. Additionally, in selecting future real estate 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. Despite the substantial capital pursuing real estate opportunities, AREP believes that there are still opportunities available to acquire investments that are undervalued. These may include commercial properties, residential and commercial development projects, land, non-performing loans, 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 and the acquisition of debt or equity securities of companies which may be undergoing restructuring and sub-performing properties that may require active asset management and significant capital improvements. AREP notes that while there are still opportunities available to acquire investments that are undervalued, acquisition opportunities in the real estate market for value-added investors have become competitive to source and the increased competition

may have some impact on the spreads and the ability to find quality assets that provide returns that are sought. These investments may not be readily financeable and may not generate immediate positive cash flow for AREP. As such, they require AREP to maintain a strong capital base in order to react quickly to these market opportunities as well as to allow AREP the financial strength to develop or reposition these assets. 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, AREP intends to focus on assets that it believes may provide opportunities for long-term growth and further its objective to diversify its portfolio. Furthermore, it should be noted that recent financial market conditions have resulted in reductions in available credit on satisfactory terms to finance real estate related investments.

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.

By the end of the year 2002, net leases representing approximately 27% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2004, net leases representing approximately 37% 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 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 in the future from such properties.

The Amendment, which became effective in August, 1996, permits AREP to invest in securities issued by companies that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate while remaining in the real estate business and continuing to pursue suitable investments for AREP in the real estate market.

AREP raised funds through a rights offering in September 1997 (the "1997 Offering") to increase its assets available for investment, take advantage of investment opportunities, further diversify its portfolio of assets and mitigate against the impact of potential lease expirations. The 1997 Offering was successfully completed in September 1997 and net proceeds of approximately $267 million were raised for investment purposes.

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 on most of its properties by third-party consultants. Based on the results of these Phase I Environmental Site Assessments, the environmental consultant has recommended that certain sites may have environmental conditions that should be further reviewed.

AREP has notified each of the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed. If such tenants do not arrange for further investigations, or remediations, if required, 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 $2-3 million, however, as no Phase II Environmental Site Assessments have been conducted by the consultants, there can be no accurate estimation of the need for or extent of any required remediation, or the costs thereof. In addition, AREP notified all tenants of the Resource Conservation and Recovery Act's ("RCRA") December 22, 1998 requirements for regulated underground storage tanks. AREP may, at its own cost, have to cause compliance with RCRA's requirements in connection with vacated properties, bankrupt tenants and new acquisitions. 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. AREP is in the process of updating its Phase I Site Assessments for certain of its environmentally sensitive properties including properties with open RCRA requirements. Approximately sixty-five updates are expected to be completed in 1999 with another forty-five scheduled for the year 2000.

AREP is investigating the potential impact of the year 2000 in the processing of date-sensitive information by AREP's computerized information systems. The year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of AREP's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. AREP believes it has identified and is addressing the year 2000 operating issues under its control and based on current information, costs of addressing and solving potential problems have not been and are not expected to be or have a material adverse impact on AREP's financial position, results of operations or cash flows in future periods. It should be noted that substantially most of AREP's real estate assets have been net leased to single corporate tenants who, with certain exceptions, are required to pay all expenses and building maintenacne related to the leased property, including any property related expenses from year 2000 problems. However, the likelihood and effects of year 2000 failures on tenants, infrastructure systems and suppliers and vendors of AREP cannot be estimated. Failures of third parties such as banks and significant tenants to comply with year 2000 problems could have an adverse impact on AREP's business including the inability to receive or process payments from tenants for signifiacnt periods of time. If AREP, its tenants or vendors are unable to resolve such processing issues in a timely manner, it could result in a material financial risk. Accordingly, AREP will devote the necessary resources to resolve all significant year 2000 issues in a timely manner, but believes that these issues will not be material to AREP's business aside from a catostrophic third-party failure that would affect most businesses.

Results of Operations

Calendar Year 1998 Compared to Calendar Year 1997

Gross revenues increased by $22,388,000, or 31.6%, during the calendar year 1998 as compared to the same period in 1997. This increase reflects increases of $11,487,000 in interest income on treasury bills and other investments, $5,804,000 in dividend income, $2,660,000 in hotel and resort operating income, $1,729,000 in rental income and $1,567,000 in other income partially offset by a decrease of $859,000 in financing lease income. The increase in interest income on treasury bills and other investments is primarily due to an increase in short-term investments as a result of the 1997 Rights Offering. The increase in dividend income is attributable to AREP's investment in limited partnership units and RJR common stock. The increase in hotel and resort operating income is primarily attributable to the acquisition of New Seabury which began operations on August 1, 1998 partially offset by the decrease in revenues due to the sale of the Phoenix Holiday Inn in April, 1997.

Expenses increased by $5,037,000, or 16.8%, during the calendar year 1998 compared to the same period in 1997. This increase reflects increases of $2,721,000 in interest expense, $2,693,000 in hotel and resort operating expenses, and $620,000 in general and administrative expenses partially offset by decreases of $808,000 in property expenses and $189,000 in depreciation and amortization. The increase in interest expense is primarily attributable to financings related to recent property acquisitions. The increases in hotel and resort operating expenses is primarily attributable to the acquisition of New Seabury resport partially offset by a decrease in expenses due to the sale of the Phoenix Holiday Inn in April 1997.

Earnings before property and securities transactions increased during the calendar year 1998 by $17,351,000 as compared to the same period in 1997, primarily due to increased interest income on treasury bills and other investments and increased dividend income.

Gain on property transactions decreased by $6,986,000 during the calendar year 1998 as compared to the same period in 1997, due to differences in the size and number of transactions.

In 1998, AREP recorded a gain sale of limited partnership interests of $4,382,000. There was no such transaction in 1997.

During the calendar year 1998, AREP recorded a provision for loss on real estate of $1,180,000 as compared to $1,085,000 during the same period in 1997.

During the calendar year 1997, AREP recorded a gain on the sale of marketable equity securities of $29,188,000 relating to its RJR stock. There was no such transaction in 1998.

During the calendar year 1997, AREP recorded a provision for loss on mortgages and note receivable of $9,790,000. No such provision was recorded in 1997.

Net earnings for the calendar year 1998 decreased by $4,746,000 as compared to the same period in 1997 primarily due to the non-recurring gain on the sale of the RJR stock in 1997 partially offset by increased earnings before property and securities transactions as mentioned above and the provision for loss on mortgages and note receivable recorded in 1997.

Diluted earnings per weighted average limited partnership unit outstanding before property and securities transactions were $1.06 in the calendar year 1998 compared to $1.16 in the comparable period of 1997, and net gain from property and securities transactions was $.22 in the calendar year 1998 compared to $.97 in the comparable period of 1997. Diluted net earnings per weighted average limited partnership unit outstanding totaled $1.28 in the calendar year 1998 compared to $2.13 in the comparable period of 1997.

Calendar Year 1997 Compared to Calendar Year 1996

Gross revenues decreased by approximately $856,000, or 1.2%, during the calendar year 1997 as compared to the same period in 1996. This decrease reflects approximate decreases of $3,945,000, or 39.3%, in hotel operating income, $3,382,000, or 16.9%, in rental income, $2,698,000 in other income and $927,000, or 3.6%, in interest income on financing leases partially offset by approximate increases of $6,860,000, or 69.5%, in interest income on treasury bills and other investments and $3,236,000 in dividend income. The decrease in hotel operating income is primarily attributable to the sale of the Phoenix Holiday Inn in April 1997. The decrease in rental income is primarily due to property sales. The decrease in other income is primarily due to the Travelodge lease termination in 1996. The decrease in interest income on financing leases is primarily attributable to normal lease amortization and property sales. The increase in interest income on treasury bills and other investments is primarily due to an increase in short-term investments as a result of the 1997 Offering. The increase in dividend income is due to AREP's investment in limited partnership units.

Expenses decreased by approximately $7,636,000, or 20.3%, during the calendar year 1997 compared to the same period in 1996. This decrease reflects decreases of approximately $3,654,000, or 21.7%, in interest expense, $2,709,000, or 35.4%, in hotel operating expenses, $954,000, or 21.6%, in property expenses and $568,000, or 10.0%, in depreciation and amortization partially offset by an increase of approximately $249,000, or 8.5%, in general and administrative expenses. The decrease in interest expense is primarily attributable to normal loan amortization and reductions due to repayments of maturing balloon debt obligations, including the Senior Unsecured Debt, as well as the sale of encumbered properties. The decrease in hotel operating expenses is primarily attributable to the sale of the Phoenix Holiday Inn in April 1997.

Earnings before property and securities transactions increased during the calendar year 1997 by approximately $6,780,000 compared to the same period in 1996, primarily due to increased interest

income on treasury bills and other investments and dividend income and decreased property expenses and interest expense due to repayments of maturing debt obligations partially offset by decreased rental income, other income, net hotel operating income and interest income on financing leases.

Gain on property transactions decreased by approximately $8,466,000 during the calendar year 1997 as compared to the same period in 1996, due to differences in the size and number of transactions.

During the calendar year 1997, AREP recorded a provision for loss on real estate of approximately $1,085,000 as compared to $935,000 in the comparable period of 1996.

During the calendar year 1997, AREP recorded a provision for loss on mortgages receivable of $9,790,000 in connection with its investment in Stratosphere. There was no such provision in 1996.

During the calendar year 1997, AREP recorded a non-recurring gain on the sale of marketable equity securities of approximately $29,188,000 relating to its RJR stock. There was no such transaction in 1996.

Net earnings for the calendar year 1997 increased by approximately $17,562,000 as compared to net earnings for calendar year 1996 primarily due to the non-recurring gain on the sale of the RJR stock and increased earnings before property and securities transactions, partially offset by the provision for loss on mortgages receivable and decreased gain on sales of real estate.

Diluted earnings before property and securities transactions per weighted average limited partnership unit outstanding were $1.16 in 1997 compared to $1.20 in 1996, and diluted net gain from property and securities transactions was $.97 in 1997 compared to $.82 in 1996. Diluted net earnings per weighted average limited partnership unit outstanding totaled $2.13 in 1997 compared to $2.02 in 1996.

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 significant portion of its cash flow to the repayment of maturing debt obligations. Cash flow from day-to-day operations represents net cash provided by operating activities (excluding working capital changes and non-recurring other income) plus principal payments received on financing leases as well as principal receipts on certain mortgages receivable reduced by periodic principal payments on mortgage debt.

In 1998, 25 leases covering 25 properties and representing approximately $2,123,000 in annual rentals expired. Fifteen of these leases originally representing approximately $595,000 in annual rental income were re-let or renewed for approximately $617,000 in annual rentals. Such renewals are generally for a term of five years. Five properties, with an approximate annual rental income of $690,000, are currently being marketed for sale or lease. Three properties with annual rental income of $138,000 were purchased by their tenants pursuant to the exercise of purchase options. Two properties with an annual rental income of $700,000 were sold.

In 1998 AREP sold 15 properties representing approximately $2,013,000 of net operating cash flow for net proceeds of approximately $23 million which are being retained for reinvestment.

On March 29, 1999, the Board of Directors of the General Partner announced that no distributions on its Depositary Units are expected to be made in 1999. AREP believes that it should continue to hold and invest, rather than distribute, cash. In making its announcement, AREP noted it plans to continue to apply available operating cash flow toward its operations, repayment of maturing indebtedness, tenant requirements and other capital expenditures and creation of cash reserves for contingencies including environmental matters and scheduled lease expirations. By the end of the year 2002, net leases representing approximately 27% of AREP's net annual rentals will be due for renewal, and by the end of

the year 2004, 37% of such rentals will be due for renewal. Another factor that AREP took into consideration was that net leases representing approximately 34% 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. Further, AREP noted that the types of investments AREP is pursuing, including assets that may not be readily financeable or generating positive cash flow, such as development properties, non-performing mortgage loans or securities of companies which may be undergoing restructuring or require significant capital investments, require AREP to maintain a strong capital base in order to own, develop and reposition those assets.

During the year ended December 31, 1998, AREP generated approximately $47 million in cash flow from day-to-day operations which excludes approximately $10.9 million in interest earned on the 1997 Offering proceeds which will be retained for future acquisitions. During 1997, AREP generated approximately $38.7 million in such cash flow from day-to-day operations which excluded approximately $3.9 million in interest earned on the proceeds from 1997 Rights Offering.

Capital expenditures for real estate, excluding new acquisitions, were approximately $505,000 during 1998. During 1997, such expenditures totaled approximately $1,836,000.

During the year ended December 31, 1998, approximately $16.2 million of maturing debt obligations, including the final $11.3 payment of the Senior Unsecured Debt were repaid out of AREP's cash flow. During the year ended December 31, 1997, approximately $18.2 million of maturing debt obligations, including an $11.3 million payment on the Senior Unsecured Debt were repaid out of AREP's cash flow.

During 1998, net cash flow after payment of maturing debt obligations and capital expenditures was approximately $30 million which was added to AREP's operating cash reserves. During 1997, net cash flow after payment of maturing debt obligations and capital expenditures was approximately $18.7 million which was added to AREP's operating cash reserves. AREP's operating cash reserves are approximately $73.3 million at December 31, 1998 (which does not include the cash from capital transactions which is being retained for investment), 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.

Sales proceeds from the sale or disposal of portfolio properties totaled approximately $23 million in 1998. During 1997, such sales proceeds totaled approximately $37.6 million. AREP received approximately $19.5 million and $21 million of net proceeds from refinancings in 1998 and 1997 respectively. AREP intends to use asset sales, financing and refinancing proceeds for new investments.

As described herein, AREP's investment in Stratosphere was transferred to an affiliate of Icahn in order to facilitate Stratosphere's reorganization. Pursuant to the Transfer/Repurchase Agreement, AREP received $60.7 million for its interest from an affiliate of Icahn. AREP expects that it will obtain the appropriate licenses and repurchase such Stratosphere interest upon such approval, together with its proportionate share of all sale proceeds, stock rights, acquired shares and other benefits, if any, that may have accreted to or been obtained in connection with such Stratosphere interests while held by the affiliate of Icahn under the Transfer/Repurchase Agreement. Also, AREP understands that Stratosphere may seek approximately $80 million for expansion of its hotel and casino facility, a substantial portion of which may be provided by AREP.

AREP also recently invested approximately $175 million in the common stock of RJR, and $39.6 million in the debt of Philips and is investigating possible tender offers for real estate operatingcompanies and real estate limited partnership units. See Notes 6 and 9. Also, see Item 1 - "Investment Opportunities and Strategies -- Real Estate Investments," for a discussion of certain considerations relating to the gaming industry.

To further its investment objectives, AREP may consider the acquisition or seek effective control of land development companies and other real estate operating companies, including those from affiliates of the General Partner, which may have a significant inventory of quality assets under development as well as experienced personnel. This may enhance its ability to further diversify its portfolio of properties and gain access to additional operating and development capabilities.

Pursuant to the 1997 Offering, which closed in September 1997, AREP raised approximately $267 million (in addition to approximately $5.4 million received from the General Partner) to increase its available liquidity so that it will be in a better position to take advantage of investment opportunities and to further diversity its portfolio. Additionally, AREP may determine to reduce debt of certain properties where the interest rate is considered to be in excess of current market rates. See Note 13.

AREP's cash and cash equivalents and investment in treasury bills decreased by approximately $121 million during 1998, primarily due to the purchase of RJR stock ($174.7 million), Sands and Claridge Notes ($29.2 million) and Philips debt ($35.2 million) which was partially offset by the proceeds from Icahn's purchase from AREP of its interest in Stratosphere ($60.7 million) pursuant to the Transfer/Repurchase Agreement, net proceeds from property sales ($23 million) and approximately $30 million of net cash flow from operations and other miscellaneous item ($4.4 million). AREP is obligated to repurchase its interest in Stratosphere when the appropriate gaming licenses have been obtained.

Quantitative and Qualitative Disclosure About Market Risks

The United States Securities and Exchange Commission requires that registrants include information about primary market risk exposures relating to financial instruments. Through its operating and investment activities, AREP is exposed to market, credit and related risks, including those described elsewhere herein. As AREP may invest in debt or equity securities of companies undergoing restructuring or undervalued by the market, these securities are subject to inherent risks due to price fluctuations, and risks relating to the issuer and its industry, and the market for these securities may be less liquid and more volatile than that of higher rated or more widely followed securities.

Other related risks include liquidity risks, which arise in the course of AREP's general funding activities and the management of its balance sheet. This includes both risks relating to the raising of funding with appropriate maturity and interest rate characteristics and the risk of being unable to liquidate an asset in a timely manner at an acceptable price. Real estate investments by their nature are often difficult or time-consuming to liquidate. Also, buyers of minority interests may be difficult to secure, while tranfers of large block positions may be subject to legal, contractual or market restrictions. Other operating risks for AREP include lease terminations, whether scheduled terminations or due to tenant defaults or bankruptcies, development risks, and environmental and capital expenditure matters, as described elsewhere herein.

Whenever practical, AREP employs internal strategies to mitigate exposure to these and other risks. AREP's management, on a case by case basis with respect to new investments, performs internal analyses of risk identification, assessment and control. AREP reviews credit exposures, and seeks to mitigate counterparty credit exposure through various techniques, including obtaining and maintaining collateral, and assessing the creditworthiness of counterparties and issuers. Where appropriate, an analysis is made of political, economic and financial conditions, including those of foreign countries. Operating risk is managed through the use of experienced personnel. AREP seeks to achieve adequate returns commensurate with the risk it assumes. AREP utilizes qualitative and well as quantitative information in managing risk.

AREP's market risk exposure with respect to its investments in marketable securities such as the RJR stock may be material. The market risk exposure in respect of the RJR stock at December 31, 1998 relates primarily to price risk. For purposes of Securities and Exchange Commission risk disclosure requirements, AREP considered the following sensitivity analysis which expresses a potential loss in future fair value of these market risk sensitive instruments resulting from the following hypothetical change in relevant market price. As of December 31, 1998 a 10% reduction in price of the RJR stock would have decreased any possible related net unrealized gain by approximately $19 million. It should be noted that while the above analysis may be a useful benchmark, it should not be viewed as a forecast.

AREP's investment in RJR stock accounted for approximately 17% of its assets at December 31, 1998 and was acquired at an average purchase price per share of $27.19. A material reduction in the price of the RJR stock could have a material impact on AREP's capital position. As with other companies engaged in the tobacco business, RJR is subject to risk and continuing litigation relating to tobacco and related liabilities. While AREP has analyzed these risks and considered market information regarding RJR, there can be no assurance that there will not be a significant fluctuation in the market value of its investment in RJR.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Response to this item is included in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" above.

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, 1998 and 1997, and the related consolidated statements of earnings, changes in partners' equity and other comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1998. In connection with our audits of the consolidated financial statements, we also have audited the 1998 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 disclosure 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, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, 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 LLP

March 23, 1999
New York, New York

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 and 1997 (in $000's)

ASSETS	1998	1997
REAL ESTATE LEASED TO OTHERS:		
Accounted for under the financing method (Notes 2, 4 and 10)	$ 245,920	$265,657
Accounted for under the operating method, net of accumulated depreciation (Notes 2, 5 and 10)	135,634	117,735
INVESTMENT IN TREASURY BILLS	363,884	372,165
MARKETABLE EQUITY SECURITIES (Notes 2 and 6)	190,775	--
MORTGAGES AND NOTES RECEIVABLE (Notes 7, 9 and 21):		
Held for investment	45,173	59,970
Available for sale	22,440	--
EQUITY INTEREST IN STRATOSPHERE CORPORATION (Notes 7 and 21)	48,969	--

HOTEL AND RESORT OPERATING PROPERTIES, Net of accumulated depreciation (Notes 5, 9 and 10)	22,037	5,002
CASH AND CASH EQUIVALENTS (Note 2)	16,462	129,147
DEVELOPMENT PROPERTIES	12,830	3,860
INVESTMENT IN LIMITED PARTNERSHIPS (Notes 2 and 8)	5,569	22,970
RECEIVABLES AND OTHER ASSETS (Note 21)	18,994	7,838
PROPERTY HELD FOR SALE (Notes 2, 10 and 20)	3,893	4,164
DEBT PLACEMENT COSTS - Net of accumulated amortization (Note 2)	1,544	1,473
CONSTRUCTION-IN-PROGRESS	1,791	1,249
TOTAL	$1,135,915	$991,230

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 and 1997(in $000's) (Continued)

	1998	1997
LIABILITIES AND PARTNERS' EQUITY		
MORTGAGES PAYABLE (Notes 4, 5, 11 and 21)	$ 173,559	$ 156,433
DUE TO AFFILIATE (Notes 7 and 21)	60,750	--
SENIOR INDEBTEDNESS (Notes 12 and 21)	--	11,308
ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES (Note 21)	10,004	10,929
DEFERRED INCOME (Note 9)	2,788	2,792
DISTRIBUTIONS PAYABLE (Note 22)	315	443
	247,416	181,905
COMMITMENTS AND CONTINGENCIES (Notes 3 and 19)		
LIMITED PARTNERS:		
Preferred units, $10 liquidation preference, 5% cumulative pay-in-kind redeemable; 9,400,000 authorized; 7,676,607 and 7,311,054 issued and outstanding as of December 31, 1998 and 1997	79,645	75,852
Depositary units; 47,850,000 authorized; 47,235,484 outstanding	802,856	728,329
GENERAL PARTNER	17,919	16,328
TREASURY UNITS AT COST: 1,137,200 and 1,037,200 depositary units at December 31, 1998 and 1997	(11,921)	(11,184)

PARTNERS' EQUITY (Notes 2, 3, 13 and 23)	888,499	809,325
TOTAL	$ 1,135,915	$ 991,230

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996 (in $000's, except per unit amounts)

	1998	1997	1996
REVENUES:			
Interest income on financing leases	$ 24,287	$ 25,146	$ 26,073
Interest income on treasury bills and other investments	28,213	16,726	9,866
Rental income	18,346	16,617	19,999
Hotel and resort operating income (Notes 9 and 10)	8,758	6,098	10,043
Dividend income (Notes 6 and 8)	11,681	5,877	2,641
Other income (Notes 7, 9 and 10)	2,021	454	3,152
	93,306	70,918	71,774
EXPENSES:			
Interest expense (Notes 11 and 12)	15,910	13,189	16,843
Depreciation and amortization	4,923	5,112	5,680
General and administrative expenses (Note 3)	3,808	3,188	2,939
Property expenses	2,649	3,457	4,411
Hotel and resort operating expenses (Notes 9 and 10)	7,645	4,952	7,661
	34,935	29,898	37,534
EARNINGS BEFORE PROPERTY AND SECURITIES TRANSACTIONS	58,371	41,020	34,240
PROVISION FOR LOSS ON MORTGAGES RECEIVABLE (Note 7)	--	(9,790)	--
PROVISION FOR LOSS ON REAL ESTATE (Notes 10 and 20)	(1,180)	(1,085)	(935)
GAIN ON SALE OF MARKETABLE EQUITY SECURITIES (Note 6)	--	29,188	--
GAIN ON SALES AND DISPOSITION OF REAL ESTATE (Note 10)	9,065	16,051	24,517
GAIN ON SALE OF LIMITED PARTNERSHIP INTERESTS (Note 8)	4,382	--	--
NET EARNINGS	$ 70,638	$ 75,384	$ 57,822
NET EARNINGS ATTRIBUTABLE TO (Note 3):			
Limited partners	$ 69,232	$ 73,884	$ 56,671
General partner	1,406	1,500	1,151

	$ 70,638	$ 75,384	$ 57,822

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
NET EARNINGS PER LIMITED PARTNERSHIP UNIT (Note 2):			
Basic earnings	$ 1.42	$ 2.27	$ 2.17
WEIGHTED AVERAGE LIMITED PARTNERSHIP UNITS OUTSTANDING	46,173,284	31,179,246	25,666,640
Diluted earnings	$ 1.28	$ 2.13	$ 2.02
WEIGHTED AVERAGE LIMITED PARTNERSHIP UNITS AND EQUIVALENT PARTNERSHIP UNITS OUTSTANDING	54,215,339	34,655,395	28,020,392

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' EQUITY AND OTHER COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996 (in $000's)

	General Partner's Equity	Limited Partners' Equity		Held in Treasury		Total Partners' Equity
		Depository Units	Preferred Units	Amounts	Units	
BALANCE, DECEMBER 31, 1995	$ 8,266	$ 386,610	$20,497	$(11,184)	1,037	$ 404,189
Comprehensive income:						
Net earnings	1,151	56,671	--	--	--	57,822
Unrealized gains on securities available for sale (Note 6)	468	23,080	--	--	--	23,548
Comprehensive income	1,619	79,751	--	--	--	81,370
Pay-in-kind distribution (Note 13)	--	(1,025)	1,025	--	--	--
BALANCE, DECEMBER 31, 1996	9,885	465,336	21,522	(11,184)	1,037	485,559
Comprehensive income:						
Net earnings	1,500	73,884	--	--	--	75,384
Sale of marketable equity securities available for sale (Note 6)	(468)	(23,080)	--	--	--	(23,548)

Comprehensive income	1,032	50,804	--	--	--	51,836
Rights offering (Note 13)	--	215,582	51,329	--	--	266,911
Expenses of Rights offering (Note 13)	(8)	(392)	--	--	--	(400)
Capital contribution (Note 13)	5,419	--	--	--	--	5,419
Pay-in-kind distribution (Note 13)	--	(3,001)	3,001	--	--	--
BALANCE, DECEMBER 31, 1997	16,328	728,329	75,852	(11,184)	1,037	809,325
Comprehensive income:						
Net earnings	1,406	69,232	--	--	--	70,638
Net unrealized gains on securities available for sale (Notes 6 and 9)	185	9,088	--	--	--	9,273
Comprehensive income	1,591	78,320	--	--	--	79,911
Repurchase of Depositary units (Note 23)	--	--	--	(737)	100	(737)
Pay-in-kind distribution (Note 13)	--	(3,793)	3,793	--	--	--
BALANCE, DECEMBER 31, 1998	$ 17,919	$ 802,856	$79,645	$(11,921)	1,137	$ 888,499

Accumulated other comprehensive income at December 31, 1998, 1997 and 1996 was $9,273, $0 and $23,548, respectively.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996 (in $000's)

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 70,638	$ 75,384	$ 57,822
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,923	5,112	5,680
Amortization of deferred income	--	(26)	(26)
Gain on sale of marketable equity securities	--	(29,188)	--
Gain on sales and disposition of real estate	(9,065)	(16,051)	(24,517)
Gain on sale of limited partnership interests	(4,382)	--	--
Provision for loss on mortgages receivable	--	9,790	--
Provision for loss on real estate	1,180	1,085	935
Changes in:			
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(1,040)	(1,277)	6,449
Decrease in deferred income	(4)	(4)	(4)
(Increase) decrease in receivables and other assets	(11,239)	1,188	(2,357)
Net cash provided by operating activities	51,011	46,013	43,982
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in mortgages and notes receivable	(63,809)	(56,345)	(570)
Net proceeds from the sales and disposition of real estate	23,004	37,643	40,673
Principal payments received on leases accounted for under the financing method	7,887	7,683	7,314
Construction in progress	(542)	(570)	(5,264)
Principal receipts on mortgages receivable	478	332	330
Property acquisitions	(41,451)	(63,064)	(103)
Capitalized expenditures for real estate	(505)	(1,836)	(3,855)
Decrease (increase) in investment in treasury bills	8,281	(372,165)	--
(Acquisition) disposition of marketable securities	(174,717)	111,784	(82,596)
Equity interest in Stratosphere Corporation	(17,939)	--	--
Due to affiliate	60,750	--	--
Net disposition (acquisition) of limited partnership interests	21,784	6,977	(29,948)

Net cash used in investing activities	(176,779)	(329,561)	(74,019)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Partners' equity:			
Repurchase of Depositary Units	(737)	--	--
Proceeds from rights offering	--	272,331	--
Expenses of the rights offering	--	(267)	(21)
Distribution to partners	(129)	(1,071)	(156)
Debt:			
Increase (decrease) in mortgages payable	39,230	62,623	(593)
Periodic principal payments	(8,710)	(7,578)	(8,091)
Balloon payments	(4,892)	(6,854)	(14,598)
Senior debt principal payment	(11,308)	(11,308)	(11,308)
Increase in construction loan payable	--	--	4,033
Debt placement costs	(371)	(724)	52
Net cash provided by (used in) financing activities	13,083	307,152	(30,682)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(112,685)	23,604	(60,719)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	129,147	105,543	166,262
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 16,462	$ 129,147	$ 105,543

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996 (in $000's)

	1998	1997	1996
SUPPLEMENTAL INFORMATION:			
Cash payments for interest	$ 14,822	$ 12,377	$16,510
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Property acquired in satisfaction of mortgages:			
Additions to property accounted for under the operating method	$ --	$ --	$ 36
Decrease in mortgages receivable	--	--	(97)
Increase to property held for sale	--	--	--
Decrease in deferred income	--	--	61
	$ --	$ --	$ --
Reclassification of real estate to operating lease	$ --	$ 4,001	$ 10,207
Reclassification of real estate from operating lease	(5,140)	(2,497)	(2,437)
Reclassification to development properties	3,860	--	--
Reclassification of real estate from financing lease	--	(4,001)	(235)
Reclassification from mortgages and notes receivable	(15,810)	--	--
Reclassification to hotel and resort operating properties	15,810	--	--
Reclassification of real estate from construction in progress	--	--	(10,207)
Reclassification of real estate to property held for sale	1,280	2,497	2,672
	$ --	$ --	$ --
Net unrealized gains on securities available for sale	$ 9,273	$ --	$ 23,548
Sale of marketable equity securities available for sale	$ --	$ (23,548)	$ --

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 and 1996

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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.

An amendment (the "Amendment") to the Company's Partnership Agreement became effective on August 16, 1996, which permits the Company to make non-real estate investments. The Amendment permits the Company to invest in securities issued by companies that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate to further diversify its investments while remaining in the real estate business and continuing to pursue suitable investments in the real estate markets. Under the Amendment, investments may include equity and debt securities of domestic and foreign issuers. The proportion of the Company's assets invested in any one type of security or any single issuer will not be limited. The investment objective of the Company with respect to such investments will be to purchase undervalued securities so as to maximize total returns consisting of current income and/or capital appreciation.

The Company will conduct its activities in such a manner so as not to be deemed an investment company under the Investment Company Act of 1940. Generally, this means that no more than 40% of the Company's total assets will be invested in securities. In addition, the Company will structure its investments to continue to be taxed as a partnership rather than as a corporation under the applicable publicly-traded partnership rules of the Internal Revenue Code.

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 Offerings.

Net Earnings Per Limited Partnership Unit - In February 1997 the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share ("SFAS 128")". SFAS 128 became effective for financial statements for both interim and annual periods ending after December 15, 1997. It also required prior period earnings per share data presented to be restated. Under SFAS 128, basic earnings per share are based on earnings after the preferred pay-in-kind distribution to Preferred Unitholders.

The resulting net earnings available for limited partners are divided by the weighted average number of shares of limited partnership units outstanding. Diluted earnings per share uses net earnings attributable to limited partner interests as the numerator with the denominator based on the weighted, average number of units and equivalent units outstanding. The Preferred units are considered to be unit equivalents. The weighted average number of depositary units outstanding for basic earnings per share purposes for years ended December 31, 1998, 1997 and 1996 were 46,173,284, 31,179,246 and 25,666,640, respectively. The weighted average number of depositary units and equivalent units assumed outstanding for diluted earnings per share purposes for the years ended December 31, 1998, 1997 and 1996 were 54,215,339, 34,655,395 and 28,020,392, respectively. The number of limited partner units used in the calculation of diluted income per limited partner unit increased by 8,042,055, 3,476,149 and 2,353,752, limited partner units for the years ended December 31, 1998, 1997 and 1996, respectively to reflect the effects of the conversion of preferred units.

For the years ended December 31, 1998, 1997 and 1996, basic and diluted earnings per weighted average limited partnership unit are detailed as follows:

	1998	1997	1996
Basic:			
Earnings before property and securities transactions	$ 1.16	$ 1.19	$ 1.27
Net gain from property and securities transactions	.26	1.08	.90
Net earnings	$ 1.42	$ 2.27	$ 2.17
Diluted:			
Earnings before property and securities transactions	$ 1.06	$ 1.16	$ 1.20
Net gain from property and securities transactions	.22	.97	.82

Net earnings	$ 1.28	$ 2.13	$ 2.02
	========	========	========

There were no distributions in 1998, 1997 or 1996.

Cash and Cash Equivalents - The Company considers short-term investments, which are highly liquid with original maturities of three months or less at date of purchase, to be cash equivalents. Included in cash and cash equivalents at December 31, 1998, 1997 and 1996 are investments in government backed securities of approximately $13,212,000, $127,805,000 and $102,270,000, respectively.

Marketable Equity Securities - Investments in equity securities classified as available for sale, for accounting purposes, are required to be carried at fair value on the Balance Sheet of the Company. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of Partners' Equity.

Investment in Limited Partnership Units - Investment in Limited Partnership Units are accounted for under the cost method with income distributions reflected in earnings and return of capital distributions as a reduction of investment.

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 an 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, 1998, 1997 and 1996 no individual or series of real estate assets leased to the same lessee accounted for more than 10% of the gross revenues of the Company. At December 31, 1998, 1997 and 1996, Portland General Electric Company occupied a property, consisting of corporate offices, which represented more than 10% of the Company's total real estate 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.

Debt Placement Costs - Debt placement costs are amortized 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, revenues and expenses 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.

Reclassifications - Certain amounts in prior year financial statements have been reclassified to conform to the 1998 presentation.

Accounting by Creditors for Impairment of a Loan - The Company follows SFAS No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS 118, Accounting by Creditors for Impairment of a Loan - Income Recognition Disclosures. In accordance with these standards, if it is probable that based upon current information 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.

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of - The Company follows Statement of Financial Accounting Standards 121, which requires that long-lived assets and certain identifiable intangibles, and goodwill related to those assets to be held and used by an entity 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.

In performing the review for recoverability, the Company estimates 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 the carrying amount of the asset an impairment loss is recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles that the Company expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

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 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 were 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, exceeded the aggregate values assigned to such Predecessor Partnerships' properties for purposes of the Exchange. If the subordination provisions were not satisfied in any year, payment of reinvestment incentive fees for such year were deferred. At the end of each year, a new determination was 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 had been deferred, may be paid.

From the commencement of the Exchange through June 30, 1997 the Company (i) sold or disposed of an aggregate of 159 properties of the Predecessor Partnerships for an aggregate of approximately $99,268,000, 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 $37,672,000 for a sum total of approximately $136,940,000. Aggregate appraised values attributable to such properties for purposes of the Exchange were approximately $145,663,000. Eighteen properties have been acquired

since the commencement of the exchange, including two properties acquired in June 1997 (see Note 10), for aggregate purchase prices of approximately $61,000,000. Reinvestment incentive fees of approximately $480,000 have previously been paid to the General Partner. Since the subordination requirements were not met as of June 30, 1997, the termination date of the right to receive such fee, no reinvestment incentive fee was due or payable to the General Partner for the two properties acquired in 1997.

b. The Company has 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.

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 amounts of approximately $34,000 and $50,000 and for the years ended December 31, 1997 and 1996, respectively. Such reimbursements were approved by the Audit Committee of the Board of Directors of the General Partner. There were no such reimbursements in 1998.

d. In addition, in 1997 the Company entered a license agreement for a portion of office space from an affiliate. The license agreement dated as of February 1, 1997 expires May 22, 2004 unless sooner terminated in accordance with the agreement. Pursuant to the license agreement, the Company has the non-exclusive use of 3,547 square feet of office space and common areas (of an aggregate

21,123 rentable square feet sublet by such affiliate) for which it pays $17,068 per month, together with 16.79% of certain "additional rent". In 1998 and 1997, the Company paid such affiliate approximately $216,000 and $69,000 of rent, respectively, in connection with this licensing agreement. In connection with the build-out of the space, the Company reimbursed such affiliate $486,989 in 1997, representing the Company's allocable share of such costs net of a pro rata share of the sub-lessor's allowance for such build-out. The terms of such sublease were reviewed and approved by the Audit Committee.

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 (in $000's):

	December 31, 1998	December 31, 1997
Minimum lease payments receivable	$301,988	$342,131
Unguaranteed residual value	142,919	150,912
	444,907	493,043
Less unearned income	198,987	227,386
	$245,920	$265,657

The following is a summary of the anticipated future receipts of the minimum lease payments receivable at December 31, 1998 in ($000's):

Year ending December 31,	Amount
1999	$ 30,825
2000	29,463
2001	25,743
2002	23,831
2003	22,262
Thereafter	169,864
	$ 301,988

At December 31, 1998, approximately $172,281,000 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 (in $000's):

	December 31,	
	1998	1997
Land	$ 46,822	$ 44,433
Commercial buildings	127,262	113,471
	174,084	157,904
Less accumulated depreciation	38,450	40,169
	$135,634	$117,735

As of December 31, 1998, and 1997, accumulated depreciation on the hotel and resort operating properties (not included above) amounted to approximately $2,993,000 and $2,200,000, respectively (See Notes 9 and 10).

The following is a summary of the anticipated future receipts of minimum lease payments under noncancelable leases at December 31, 1998 (in $000's):

Year ending December 31,	Amount
1999	$ 11,949
2000	10,716
2001	9,443
2002	8,527
2003	7,341
Thereafter	27,340
	$ 75,316

At December 31, 1998, approximately $82,837,000 of real estate leased to others was pledged to collateralize the payment of nonrecourse mortgages payable.

6. MARKETABLE EQUITY SECURITIES

a. In 1996, the Company purchased 3,121,700 shares of RJR Nabisco Holdings Corp. ("RJR") common stock at a cost of approximately $82,596,000 at an average cost per share of $26.46.

The Company recorded "Dividend income" of $2,281,000 for the year ended December 31, 1996 on the 3,121,700 shares of RJR purchased in 1996.

Unrealized holding gains of approximately $23,548,000 were recorded as a separate component of Partners' Equity at December 31, 1996.

In February 1997, the Company sold its entire interest in RJR for net proceeds of approximately $111,784,000 realizing a gain of approximately $29,188,000. The Company's pro rata share of third party expenses relating to such RJR investment was approximately $2,154,000 which was paid in the year ended December 31, 1997 and approved by the Audit Committee.

b. In 1998, the Company purchased 6,426,100 shares of RJR Nabisco Holdings Corp. ("RJR") common stock at a cost of approximately $174,717,000, at an average cost per share of $27.19. As of

December 31, 1998 the Company owns 6,426,100 shares of RJR, representing approximately 2.0% of the total outstanding RJR common shares. On December 31, 1998, the closing price of RJR common shares on the New York Stock Exchange was $29.69 representing a market value of approximately $190,775,000 and approximately 16.8% of the Company's total assets. Carl C. Icahn, the Chairman of the Board of the General Partner, owned (through affiliates) an additional 11,617,200 shares of RJR, as of December 31, 1998, representing approximately 3.6% of the total outstanding RJR common shares.

The Company recorded "Dividend income" of approximately $2,219,000 for the year ended December 31, 1998 on the 6,426,100 shares of RJR purchased in 1998.

Unrealized holding gains of approximately $16,058,000 were recorded as a separate component of Partners' Equity at December 31, 1998.

Subsequent to December 31, 1998, the Company purchased 22,100 additional shares for approximately $611,000. As of March 18, 1999, Carl C. Icahn has purchased additional shares representing approximately 2.3% of the total outstanding RJR common shares.

7. EQUITY INTEREST IN STRATOSPHERE CORPORATION

In June, 1997 the Company invested approximately $42.8 million to purchase approximately $55 million face value of 14 1/4% First Mortgage Notes, due May 15, 2002, issued by the Stratosphere Corporation ("Stratosphere"), which had approximately $203 million of such notes outstanding. In July and September 1998, the Company invested approximately $17.9 million to purchase approximately $43.5 million face value of additional notes. An affiliate of the General Partner owned approximately $83.3 million face value of the Stratosphere First Mortgage Notes. Stratosphere owns and operates the Stratosphere Tower, Casino & Hotel, a destination resort complex located in Las Vegas, Nevada, containing a 97,000 square foot casino and 1,444 hotel rooms and suites and other attractions.

Stratosphere and its wholly owned subsidiary Stratosphere Gaming Corp. filed voluntary petitions on January 27, 1997, for Chapter 11 Reorganization pursuant to the United States Bankruptcy Code. Stratosphere filed a Second Amended Plan of Reorganization which provided for the holders of the First mortgage Notes to receive 100% of the equity in the reorganized entity and therefore provided the Company and its affiliate with a controlling interest. Such plan was approved by the Bankruptcy Court on June 6, 1998 but was not effective until certain governmental approvals were obtained including, among other things, gaming licenses from the Nevada Gaming Authority.

The Company, the General Partner, and the directors and officers of the General Partner are currently in the process of pursuing gaming applications to obtain licenses from the Nevada Gaming Authority. The Company understands that the application process may take a number of months. The Company has no reason to believe it will not obtain its necessary license; however, the licensing application of the affiliate of the General Partner was reviewed by the authorities earlier than the Company's application. In an effort to facilitate the consummation of the Stratosphere reorganization process, the Company entered into an agreement to transfer its interest (the "Transfer Agreement") in Stratosphere to an affiliate of the General Partner at a price equal to the Company's cost for such Stratosphere First Mortgage Notes. However, the affiliate of the General Partner would be obligated to sell back to the Company and the Company would be obligated to repurchase such interest in Stratosphere at the same price (together with a commercially reasonable interest factor), when the appropriate licenses are obtained by the Company. The Company believes there should be no problem for the Company to obtain its license, and thereupon such Stratosphere interests would be transferred back to the Company; however, in order to secure the Company, if such Stratosphere interests are not transferred back to the

Company then any net gains (less such interest) from the subsequent sale by the affiliate of the General Partner of such Stratosphere interests previously held by the Company will be paid to the Company.

In October 1998, the affiliate of the General Partner obtained its licenses and in accordance with the Transfer Agreement the Company received approximately $60.7 million for its Stratosphere interests. Stratosphere's Second Amended Plan of Reorganization became effective on October 14, 1998.

Based on current hotel and casino operations' management believed the fair value of this investment to be $33,021,000 at December 31, 1997. As a result, the Company recorded a provision for loss on mortgages receivable of $9,790,000 in the year ended December 31, 1997.

At December 31, 1998 the Company has an equity interest of approximately $48,969,000 and a corresponding liability of approximately $60,750,000 to reflect the Company's obligation to repurchase the Stratosphere First Mortgage Notes it previously held. A loss of approximately $89,000 offset by approximately $79,000 of accretion is included in "other income" in the year ended December 31, 1998.

Condensed financial information for this investment at December 31, 1998 is shown below (in $000's).

	Total	AREP's Share
Current assets	$ 26,179	$ 12,706
Noncurrent assets	129,367	62,790
Current liabilities	28,557	13,860
Noncurrent liabilities	95	46
Net equity	126,894	61,590
Revenues	$ 30,586	$ 14,845
Costs and other deductions	30,770	14,934
Net loss	(184)	(89)

The difference between the Company's carrying value and its share of Stratosphere's net equity at date of reorganization is being accreted over a 40 year period.

8. INVESTMENT IN LIMITED PARTNERSHIP UNITS

a. In June 1996, the Company entered into an agreement with non-affiliated third parties and became a member of a limited liability company, Beattie Place LLC ("Beattie"). The purpose of Beattie is to acquire, hold, and ultimately dispose of limited partnership units in ten Balcor Limited Partnerships (the "Balcor Units") in connection with previously commenced tender offers. These Balcor limited partnerships own and operate commercial and multi-family real estate properties nationwide. The Company agreed to purchase a non-voting membership interest in Beattie of approximately 71.5%. Beattie purchased approximately 119,000 Balcor Units of which approximately 85,000 Balcor Units represent the Company's pro rata share. As of December 31, 1998, the Company has received distributions of approximately $2,906,000 in excess of its original investment of $9,834,000. Such distributions of approximately $430,000 and $2,476,000 have been recognized in "Dividend income" in the years ended December 31, 1998 and 1997, respectively. In addition, approximately $622,000 and $360,000 of income distributions were received and recorded in "Dividend income" for the years ended December 31, 1997 and 1996, respectively.

b. In July 1996, the Company's subsidiary, American Real Estate Holdings Limited Partnership ("AREH") and an affiliate of the General Partner, Bayswater Realty and Capital Corp. ("Bayswater") became partners of Boreas Partners, L.P., ("Boreas"), a Delaware limited partnership. AREH and Bayswater have a 69.999% and 30% limited and general partner interest, respectively, and a wholly owned subsidiary of AREH has a .001% interest as a general partner of Boreas. AREH's total interests are 70%. Boreas together with unaffiliated third parties entered into an agreement and became limited partners of Raleigh Capital Associates, L.P. ("Raleigh") for the purpose of making a tender offer for up to 46% of the outstanding limited partnership and assignee interests ("Units") of Arvida/JMB Partners, L.P. ("Arvida") a real estate partnership. Boreas and an affiliated general partner had a total interest in Raleigh of 33 1/3%. In 1996, Boreas made capital contributions of approximately $17,650,000 to Raleigh representing, as of December 31, 1996, approximately 27,000 of the outstanding Units. In February 1997, Raleigh returned approximately $3,625,000, together with interest earned thereon of approximately $29,000, of excess capital contribution. In April 1997, an additional contribution of approximately $4,333,000 was made representing 8,000 additional units.

Boreas received approximately $5,550,000 and $1,333,000 of income distributions, representing Arvida's cash flow distributions, which were recorded as "Dividend income" in the years ended December 31, 1998 and 1997, respectively.

On May 15, 1998 Raleigh redeemed the 66 2/3% partnership interests of the unaffiliated third parties for approximately $27,703,000. The redemption was funded by Raleigh utilizing approximately $253,000 of its cash on hand and incurring the following debt obligations: (i) $10,000,000 loan from Ing (U.S.) Capital Corp. ("Ing"), bearing interest at prime plus 1 -1/2% ("Base Rate"), with a maturity date of May 14, 1999, and collateralized by the assets of Raleigh; (ii) $5,235,263 subordinated loan from Vegas Financial Corp., an affiliate of Carl C. Icahn, bearing interest at the Base Rate plus 1%

and payable semi-annually, with a maturity date of November 15, 2000 and (iii) $12,215,614 subordinated loan from the Company under the same terms and conditions as (ii) above.

On December 23, 1998, Raleigh sold all of its limited partnership interest in Arvida for approximately $47,697,000. All of the above outstanding loans were paid off along with accrued interest to the date of sale. The Company received approximately $14,004,000 of net sale proceeds. A gain of approximately $4,382,000 was recorded by the Company on the disposition of the units including distributions received in excess of the Company's investment.

As of December 31, 1998, Boreas and Raleigh have been consolidated in the Company's financial statements. Included in the Consolidated Statements of Earnings for the year ended December 31, 1998 is approximately $416,000 of "Interest expense".

c. On March 12, 1998 the Company, through its affiliate Olympia Investors, L.P. ("Olympia"), initiated tender offers to purchase up to 160,000 units of limited partnership interest in Integrated Resources High Equity Partners Series 85 ("HEP 85") at a purchase price of $95 per unit, up to 235,000 units of High Equity Partners L.P. - Series 86 ("HEP 86") at a purchase price of $85 per unit and up to 148,000 units of High Equity Partners L.P. - Series 88 ("HEP 88") at a purchase price of $117 per unit (subsequently increased to $125.50 per unit). The offers expired on July 24, 1998.

On September 17, 1998, the Company paid approximately $7.5 million to the tender agent for 30,842 units of HEP 85; 32,104 units of

HEP 86; and 14,687 units of HEP 88. In January 1999, the Company paid an additional $108,240 for 290 units of HEP 85; 646 units of HEP 86; and 268 units of HEP 88.

Concurrently with the tender offer the Company entered into an agreement with an affiliate of the general partner of HEP 85, HEP 86 and HEP 88 which gave them a purchase option for 50% of the tendered units at Olympia's tender price plus expenses. On October 20, 1998, the Company received notice from the affiliate of the general partner of HEP 85, HEP 86, and HEP 88 that it would exercise their 50% purchase option pertaining to all of the tendered units.

In December 1998 and January 1999, the Company received approximately $4,018,000 and $58,000, respectively, in payment of a total of 15,566 units of HEP 85; 16,375 units of HEP 86; and 7,478 units of HEP 88.

As of December 31, 1998, the Company's investment in HEP 85, 86 and 88 limited partnership units totalled approximately $4,079,000.

d. As of December 31, 1998, the Company has participated in four other tender offers for limited partnership units. The Company has invested approximately $1,490,000 in these partnerships as of December 31, 1998.

9. MORTGAGES AND NOTES RECEIVABLE
(in $000's)

Collateralized by Property Tenanted by or Debtor		Interest Rate		Maturity Date		Balance at Maturity		Monthly Payment Amount		Balance at December 31, 1998	Balance at December 31, 1997
Held for investment:											
Hardee's Food Systems, Inc.	(l)	9.00%	(a)	11/05		$ --		1	(a)	$ 117	$ 117
Bank of Virginia	(l)	9.00	(b)	1/06		848		1	(b)	365	359
Best Products Co., Inc.	(l)	9.00	(c)	9/01		--		--	(c)	--	173
Data 100 Corp.	(l)	9.00		12/10		--	(d)	10		--	--
		11.6087		12/19		--	(d)	--		--	--
Easco Corp.	(l)	8.875		2/98	(e)	3,587		27	(e)	3,468	3,481
Winchester Partnership	(l)	9.00		11/01		--		34		1,039	1,336
Queens Moat Houses, P.L. C. (Note receivable)	(f)	Variable		12/00		9,839	(f)	--	(f)	4,944	5,600
Stratosphere Corp.	(g)	14.25		5/02		--	(g)	--	(g)	--	33,021
New Seabury Company, LP	(h)	--		--		--	(h)	--	(h)	--	15,883
Philip Services Corp.	(k)	Variable		8/02				--		35,240	--
										45,173	59,970
Available for sale:											
Sands Hotel and Casino	(i)	10.875		1/04		--	(i)	--	(i)	11,190	--
Claridge Hotel and Casino Corp.	(j)	11.75		2/02		--	(j)	--	(j)	11,250	--
										22,440	--
										$67,613	$ 59,970

(a) 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.

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

(c) Payments are $54,276 through September 1, 2001.

(d) In August 1997, the outstanding principal balance of the notes was paid off and a gain of approximately $950,000 was realized in the year ended December 31, 1997.

(e) As of January 31, 1999, the purchase money mortgage was amended. The maturity date was extended to February 2000 under similar terms.

(f) 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 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 accrued from July 1, 1995 to June 30, 1996, in the approximate amount of $622,000, has been capitalized into the note receivable in accordance with the terms of the Facility Agreement. 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 years ended December 31, 1998, 1997 and 1996, these repayments totalled approximately $1,443,000, $2,165,000 and $419,000, respectively.

The discount at acquisition date is being amortized over the term of the Facility Agreement. For the years ended December 31, 1998, 1997 and 1996, approximately $691,000, $1,015,000 and $619,000 of discount was amortized including $371,000, $626,000 and $122,000 as a result of repayments, respectively. 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. A foreign exchange gain of approximately $50,000 was recognized and included in "Other income" in the year ended December 31, 1998 and foreign exchange losses of approximately $979,000 and $253,000 have been recognized and are included in "Other income" for the years ended December 31, 1997 and 1996, respectively.

(g) See Note 7

(h) On August 18, 1997, a wholly-owned subsidiary of the Company acquired five notes and mortgages for approximately $10,745,000 with an aggregate face amount of approximately $14,340,000, excluding accrued and unpaid interest and penalties owed by the borrower and estimated to total approximately an additional $8,200,000. The notes were secured by certain real property belonging to the borrower, New Seabury Company Limited Partnership ("New Seabury"). The loans were non-performing and the debtor had filed a Chapter 11 petition for relief in the United States Bankruptcy Court, District of Massachusetts. The properties are part of a master planned community situated in the town of Mashpee located on Cape Cod in Massachusetts. Subsequent to the closing, the Company received approximately $115,000 in cash flow from property operations from a portion of the underlying collateral which was applied to the Company's investment.

On September 26, 1997, a wholly-owned subsidiary of the Company acquired four additional notes and mortgages for a purchase price of approximately $5,000,000 with an outstanding principal balance of approximately $8,320,000, excluding accrued and unpaid interest and penalties owed by the borrower and estimated to total approximately an additional $3,000,000 to $4,000,000. The notes were secured by certain real property belonging to the borrower, New Seabury. The loans also were non-performing and subject to the debtor's Chapter 11 proceeding. The properties are part of a master planned community situated in the Town of Mashpee located in Cape Cod in Massachusetts.

In June 1998, a Chapter 11 plan of reorganization proposed by the Company was approved by the Bankruptcy Court. In late July 1998, the Company acquired substantially all of the debtor's assets including two golf courses, other recreational facilities, a villa rental program, condominium and time share units and land for future development. The Company assumed mortgage debt of approximately $8.5 million (subsequently repaid) and made other payments to creditors of approximately $3.5 million.

Total costs of approximately $28 million have been classified as follows: approximately $17.4 million as "Hotel and resort properties", $8.9 million as "Development property" and $1.7 million as "Other assets" on the Consolidated Balance Sheet. Resort operations for the period August 1 to December 31, 1998 have been included in the "Hotel and resort operating income and expenses" in the Consolidated Statements of Earnings. Net hotel and resort operations ("hotel and resort operating income" less "hotel and resort operating expenses") totalled approximately $841,000 for the year ended December 31, 1998. Hotel and resort operating expenses include all expenses except for approximately $216,000 of depreciation and amortization and $273,000 of interest expense for the year ended December 31, 1998. These amounts are included in their respective captions in the Consolidated Statements of Earnings. In addition, approximately $35,000 of interest income was recorded in the year ended December 31, 1998.

Resort operations are highly seasonal in nature with peak activity occurring from June to September.

(i) In 1998, the Company acquired an interest in the Sands Hotel and Casino (the "Sands) located in Atlantic City, New Jersey by purchasing the principal amount of approximately $18.7 million of First Mortgage Notes ("Notes") issued by GB Property Funding Corp. ("GB Property"). GB Property was organized as a special purpose entity for the borrowing of funds by Greate Bay Hotel and Casino, Inc. ("Greate Bay"). The purchase price for such notes was approximately $15.1 million. An affiliate of the General Partner also has an investment in Notes of GB Property. $185 million of such Notes were issued, which bear interest at 10.875% per annum and are due on January 15, 2004.

Greate Bay owns and operates the Sands, a destination resort complex, containing a 76,000 square foot casino and 532 hotel rooms and other amenities. On January 5, 1998, GB Property and Greate Bay filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code to restructure its long term debt.

The Company has classified the GB Property Notes as available for sale for accounting purposes. This investment is carried at fair market value on the Balance Sheet. At December 31, 1998 unrealized holding losses of $3,935,000 are reflected in Partners' Equity.

(j) In January 1998, the Company acquired an interest in the Claridge Hotel and Casino (the "Claridge Hotel") located in Atlantic City, New Jersey by purchasing the principal amount of $15 million of First Mortgage Notes of the Claridge Hotel and Casino Corporation (the "Claridge Corporation"). The purchase price of such notes was approximately $14.1 million. $85 million of such notes were issued, which bear interest at 11.75% payable semi-annually and are due February 1, 2002. In August 1998, the Company received the semi-annual interest payment. The February 1, 1999 payment was postponed until March 2, 1999 when it was paid.

The Claridge Corporation through its wholly-owned subsidiary, the

Claridge at Park Place, Incorporated, operates the Claridge Hotel, a destination resort complex, containing a 59,000 square foot casino on three levels and 502 hotel rooms and other attractions.

The Company has classified the Claridge Corporation Note as available for sale for accounting purposes. This investment is carried at fair market value on the Balance Sheet. At December 31, 1998 unrealized holding losses of $2,850,000 are reflected in Partners' Equity.

(k) In 1998, the Company purchased approximately $78.2 million of senior debt of Philip Services Corp. and Philip Services (Delaware), Inc. ("Philips") for approximately $35.2 million. In addition, an affiliate of Icahn purchased $35.7 million of senior debt of Philips and also owns common shares of Philips. Philips is a Canadian-based company in the waste recovery business and its shares are listed on the New York Stock Exchange.

In 1999, the Company purchased an additional $10.2 million of Philips debt for approximately $4.4 million.

(l) 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.

10. SIGNIFICANT PROPERTY TRANSACTIONS

Information on significant property transactions during the three-year period ended December 31, 1998 is as follows:

a. On July 14, 1992, Integra, a Hotel and Restaurant Company, 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.

At December 31, 1998, the property located in Miami Florida has a carrying value of approximately $4,842,000 and is unencumbered by any mortgages. This property is subject to a ground lease.

In April 1997, the Company sold the hotel property located in Phoenix, Arizona. The selling price was $15,750,000 and a gain of approximately $7,863,000 was recognized in the year ended December 31, 1997. This property was encumbered by a nonrecourse mortgage with a principal balance outstanding of approximately $3,211,000 which was repaid at closing. A prepayment penalty of approximately $250,000 was also incurred.

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 included in Hotel and Resort Operating Properties and their revenues and expenses separately disclosed in the Consolidated Statements of Earnings. Net hotel and resort operations ("hotel and resort operating revenues" less "hotel and resort operating expenses") totalled approximately $271,000, $1,110,000 and $2,382,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Hotel and resort operating expenses include all expenses except for approximately $577,000, $527,000 and $933,000 of depreciation for the years ended December 31, 1998, 1997 and 1996, respectively, and $0, $83,000 and $335,000 of interest expense for the years ended

December 31, 1998, 1997, and 1996, respectively. These amounts are included in their respective captions in the Consolidated Statements of Earnings.

b. 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 Company foreclosed on the above loans in October, 1993 and February 1994.

On September 17, 1996, the Company sold the two apartment complexes for $20,325,000. First mortgages with principal balances outstanding of approximately $9,800,000 were repaid at closing. As a result, the Company recognized a gain on the sale of these properties of approximately $6,723,000 in the year ended December 31, 1996.

c. The Company entered into two joint ventures in June 1994 with unaffiliated co-venturers for the purpose of developing luxury garden apartment complexes. The Alabama joint venture has been consolidated in the accompanying financial statements. The North Carolina joint venture sold its property in December 1996 at a gain of approximately $4.9 million.

d. 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 was paid to the Company's general partner in 1996 (See Note 3).

e. 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") which required Forte to pay the Company $2,800,000.

As a result of the above settlement the Company recognized "Other income" of approximately $2,700,000, net of related costs, in the year ended December 31, 1996. In January 1997, the Company sold this property for approximately $2,165,000, net of closing costs. A gain of approximately $1,403,000 was recorded in the year ended December 31, 1997.

f. On May 10, 1996, the Company sold a property in Miami, Florida that was tenanted by the Cordis Corporation. The Company permitted an early exercise by the tenant of its purchase option as the Company believed the option price to be above the market price. The selling price for the property was $24,310,000. First and second mortgages with principal balances outstanding of approximately $14,416,000 were repaid at closing. In addition, closing costs of approximately $228,000 were incurred. As a result, the Company recognized a gain on the sale of this property of approximately $4,659,000.

In connection with the early extinguishment of the outstanding mortgage balances, the Company paid approximately $522,000 in prepayment penalties which were included in interest expense in the 1996 consolidated statement of operations.

g. On July 24, 1996, the Company entered into a gross lease with AT&T Corp. for its Atlanta office building formerly leased to

Days Inn of America, Inc. The initial term of the lease was for five years at $1,478,923 per annum plus operating expense escalations with two five-year renewal periods. The renewal rent was the initial term rent plus 50% of the increase in the Consumer Price Index. Tenant improvements, allowances and commissions incurred in connection with this lease were approximately $2,500,000. The lease commenced on November 25, 1996.

On May 21, 1998, the Company sold this property for a selling price of $8,600,000. As a result, the Company recognized a gain of approximately $1,260,000 in the year ended December 31, 1998.

h. On July 29, 1996, the Company sold a property in Woodbury, NY that was tenanted by Pioneer Standard Electronics, Inc. The selling price was $2,000,000 and the Company recognized a gain of approximately $1,040,000 in the year ended December 31, 1996.

i. On August 15, 1996, the Company sold a property in Philadelphia, Pennsylvania that was tenanted by A&P and Ginos. The selling price for the property was $3,500,000. A first mortgage with a principal balance outstanding of approximately $301,000 was repaid at closing. In addition, closing costs of approximately $194,000 were incurred. As a result, the Company recognized a gain on the sale of this property of approximately $2,198,000.

j. On September 30, 1996, the Company sold a property in Southfield, Michigan that was tenanted by the Penske Corporation. The selling price for the property was $4,700,000 and the Company recognized a gain on the sale of this property of approximately $3,253,000.

k. On January 7, 1997, the Company sold three properties tenanted by Federal Realty Investment Trust ("FRIT") for a total selling price of approximately $9,363,000. Two first mortgages with principal balances outstanding of approximately $878,000 were repaid at closing. In addition, closing costs of approximately $40,000 were incurred. As a result, the Company recognized a gain of approximately $1,778,000.

In addition, on January 7, 1997, FRIT made a loan to the Company in the approximate amount of $8,759,000 secured by a fourth property tenanted by FRIT located in Broomal, PA. Concurrently with this loan, the Company granted and FRIT exercised an option to purchase the Broomal property with a closing to occur on or about June 30, 1998. The purchase price was the unpaid balance of the mortgage loan of approximately $8,500,000 at the closing date. The nonrecourse mortgage loan had an interest rate of 8% per annum and required monthly debt service payments of approximately $72,000. This property was sold in July 1998 and a gain of approximately $2.7 million was recorded in the year ended December 31, 1998.

l. On June 30, 1997, the Company acquired two adjacent medical office buildings located in Nashville, Tennessee, both of which are net leased to Baptist Hospitals, Inc. ("Baptist"). The total purchase price was approximately $34,616,000, which included the assumption of existing mortgages on each building totaling approximately $31,666,000.

The lease term, which commenced June 28, 1996, is for 22.5 years with seven 10-year renewal periods at approximately $3,032,000 per annum paid semi-annually. The mortgages bear interest at the rate of 7.84% per annum, self liquidate December 31, 2018, and have total debt service of approximately $3,070,000 payable semi-annually. Cash flow from these properties is approximately break-even.

m. On September 26, 1997 the Company purchased a retail property located in Schaumburg, Illinois for approximately $9,138,000 cash. The completed building, which is approximately 100,000 square feet, is tenanted by Bed Bath & Beyond, Inc., and Golfsmith International, Inc.

Bed Bath & Beyond's lease is for an initial term of fifteen years starting at $565,896 per year for their approximately 71,000 square foot store with four five year renewal options at increased rentals. Golfsmith International's lease is for an initial term of fifteen years starting at $375,450 per year with three five year renewal options at increased rentals. The rent commencement date for both tenants occurred in November 1997.

In April 1998, the Company executed a new mortgage loan and obtained funding in the principal amount of $7,150,000. The loan bears interest of 7.25% per annum and matures May 10, 2008, at which time the remaining principal balance of approximately $6,183,000 will be due. Annual debt service is approximately $585,000.

n. On December 12, 1997, the Company sold the property tenanted by Hancock Bank located in Baton Rouge, Louisiana. The selling price was $5,075,000. As a result, the Company recognized a gain of approximately $1,345,000.

o. In December 1997, the Company purchased for approximately $19 million, two multi-tenant industrial buildings, located in Hebron, Kentucky. Net rental income is approximately $1.75 million per annum. The Company obtained a mortgage of approximately $12.4 million in 1998. See Note 11b.

p. On February 19, 1998, the Company sold a property located in Palo Alto, California to its tenant, Lockheed Missile and Space Company, Inc. for a selling price of approximately $9,400,000. As a result, the Company recognized a gain of approximately $4,130,000 in the year ended December 31, 1998.

q. On August 5, 1998, the Company purchased an industrial building located in Hebron, Kentucky. The property is net leased to United Parcel Service ("UPS"). The purchase price was $21,080,000 which included the simultaneous funding of a mortgage for $19,480,000. See Note 11c for details on the mortgage.

The lease term, which commenced on June 1, 1998, is for an initial term of ten years at $1,861,240 per year for the first five years and $2,138,304 per year in years six to ten. There are three five year renewal periods at increased rentals.

r. In August 1998, the Company purchased a manufacturing facility located in Germantown, Wisconsin. The property is net leased to Stone Container Corporation. The purchase price was $9,025,000 cash. The lease term, which commenced May 1, 1998, is for eleven years at approximately $807,150 per year increasing 2% annually. There is one five year renewal period at approximately $1,013,429 per year increasing 3% annually.

11. MORTGAGES PAYABLE

At December 31, 1998, mortgages payable, all of which are nonrecourse to the Company, are summarized as follows (in $000's):

		Annual Principal	Balance at December 31	
Range of Interest Rates	Range of Maturities	and Interest Payment	1998	1997

7.080% - 8.790%	06/30/99 - 04/30/28	$ 15,839	$ 135,131	$ 104,737
9.000 - 10.750	11/01/99 12/13/13	6,704	38,428	51,132
11.500 - 12.000	-- --	--	--	564
		$ 22,543	$ 173,559	$ 156,433

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

Year ending December 31,	Amount
1999	$ 14,413
2000	20,234
2001	8,670
2002	7,057
2003	7,344
2004 - 2008	71,757
2009 - 2013	16,172
2014 - 2018	17,051
2019 - 2023	6,172
2024 - 2028	4,689
	$ 173,559

a. In December 1997, the Company executed a new mortgage loan and obtained funding in the principal amount of $46.3 million, which is secured by a mortgage on a three building office/retail/conference center complex net leased by the Company to a subsidiary of Portland General Electric Corporation ("PGE") in Portland, Oregon, the complex contains approximately 800,000 square feet on approximately 2.7 acres. The loan replaces an existing mortgage loan on the complex with an outstanding principal balance of approximately $24.2 million, bearing interest at 8.5% and maturing in 2002.

   The interest rate on the new mortgage loan is 7.51%. The entire net annual rent payable by PGE of approximately $5,137,000 will be applied by the Company towards the debt service on the loan. The new loan has a maturity date of September 2008, at which time the remaining principal payment of approximately $20 million will be due from the Company. Debt placement costs of approximately $808,000 were incurred.

b. On March 31, 1998, the Company executed a mortgage loan and obtained funding in the principal amount of approximately $12.4 million, which is secured by a mortgage on two multi-tenant industrial buildings located in Hebron, Kentucky acquired in December of 1997. The loan bears interest at 7.21% per annum and matures July 15, 2008, at which time the remaining principal balance of approximately $10.8 million will be due. Annual debt service is approximately $1,027,000.

c. On August 5, 1998, the Company executed a mortgage loan and obtained funding in the principal amount of approximately $19.5 million, which is secured by a mortgage on one industrial building tenanted by United Parcel Service, located in Hebron, Kentucky. The loan bears interest at 7.08% per annum and matures July 15, 2008, at which time the remaining principal balance of approximately $15.4 million will be due. Annual debt service is approximately $1,664,000.

12. SENIOR INDEBTEDNESS

On May 27, 1988, the Company closed a $50,000,000, 10-year senior unsecured debt financing. The notes had an interest rate of 9.6%, payable semiannually, 2% of which was deferred and added to the principal at the Company's option during the first five years. In May 1996 and 1997, the Company repaid approximately $11,308,000 each year of the outstanding principal balance of the notes. The Company made its final principal repayment of approximately $11,308,000 on the final payment date of May 27, 1998.

13. RIGHTS OFFERINGS

a. A registration statement relating to the 1995 Rights Offering (the "1995 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 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"). 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. The first Payment Date was April 1, 1996 on which 98,782 additional Preferred Units were issued. On March 31, 1997, the distribution of 103,721 additional Preferred Units were issued to holders of record as of March 14, 1997.

1,975,640 Rights were issued in the 1995 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 1995 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 1995 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 1995 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 approximately $2.2 million in order to maintain its aggregate 1.99% general partnership interest.

On April 12, 1995, the Company received approximately $108.7 million, the gross proceeds of the 1995 Offering, from its subscription agent and approximately

$2.2 million 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".

b. In September 1997, the Company completed its 1997 Rights Offering (the "1997 Offering") to holders of its Depositary Units. The aggregate amount raised in the 1997 Offering was approximately $267 million, which is expected to be used primarily for additional investment opportunities.

Record date holders were issued one transferable right for each five Depositary Units held. Each right (the "Primary Subscription Right") entitled the holder thereof to acquire during the subscription period, at a subscription price of $52, four Depositary Units and one 5% cumulative pay-in-kind redeemable Preferred Unit representing a limited partner interest. The subscription period commenced August 13, 1997 and expired at the close of business on September 11, 1997.

5,132,911 Rights were issued in the 1997 Offering of which 3,307,512 were exercised. 798,832 Depositary Units and 199,708 Preferred Units were subscribed for through the exercise of the Over-Subscription Privilege by Rights Holders other than High Coast.

High Coast acted as the guarantor for the offering. Pursuant to its subscription guaranty, High Coast agreed to subscribe for and purchase all of the Depositary Units and Preferred Units not otherwise purchased by Rights Holders. As a result, the offering was fully subscribed. Pursuant to its subscription guaranty, High Coast over-subscribed for a total of 6,502,764 Depositary Units and 1,625,691 Preferred Units.

In addition, in accordance with the terms of the Company's and its subsidiary's partnership agreements, API was required to contribute approximately $5.4 million in order to maintain its aggregate 1.99% general partnership interest.

On September 25, 1997 the Company received approximately $267 million, the gross proceeds of the 1997 Offering, from its subscription agent and approximately $5.4 million from API. Expenses incurred in connection with the 1997 Offering were approximately $400,000. The Company issued an additional 5,132,911 Preferred Units and 20,531,644 Depositary Units. The Preferred and Depositary Units trade on the New York Stock Exchange under the symbols "ACP PR" and "ACP", respectively.

On March 31, 1998, the Company distributed 365,553 units to holders of record as of March 13, 1998. As of December 31, 1998, 7,676,607 Preferred Units are issued and outstanding.

As of December 31, 1998, High Coast owns 6,642,065 Preferred Units and 31,515,044 Depositary Units.

14. TENDER OFFER

On November 20, 1998, affiliates of Icahn made an offer to purchase up to 10,000,000 of the outstanding Depository Units at a purchase price of $10.50 per Depositary Unit, net to the seller in cash, without interest (the "1998 Tender Offer"). As a result, Leyton LLC, an affiliate of Icahn, purchased 6,568,165 Depository Units.

As of December 31, 1998, Icahn affiliates own 38,083,209 Depository Units.

15. RECONCILIATION OF NET EARNINGS PER FINANCIAL STATEMENTS TO TAX REPORTING (in $000's)

	1998	1997	1996
Net earnings per financial statements	$ 70,638	$ 75,384	$ 57,822
Minimum lease payments received, net of income earned on leases accounted for under the financing method	7,887	7,683	7,314
Gain on real estate transactions and sale of limited partnership interests for tax purposes (lesser than)/greater than that for financial statement purposes	(3,527)	(5,594)	8,867
Provision for loss for financial statement purposes	1,180	10,875	935
Difference attributed to joint ventures and minority interest	(209)	(46)	(143)
Difference between expense accruals, net of income accruals, at beginning of year and end of year	(4,872)	(2,094)	807
Depreciation and amortization for tax purposes in excess of that for financial statement purposes due to leases accounted for under the financing method	(4,852)	(4,464)	(5,215)
Other	(26)	(26)	(26)
Taxable income	$ 66,219	$ 81,718	$ 70,361

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

	Three Months Ended			
	March 31,		June 30,	
	1998	1997	1998	1997
Revenues	$ 21,356	$ 17,299	$ 21,319	$ 15,523
Earnings before property and securities transactions	$ 13,902	$ 8,605	$ 14,100	$ 8,369
Gains on property transactions	4,550	2,957	2,527	7,967
Gain (loss) on sale of marketable equity securities	--	29,227	--	(39)
Provision for loss on real estate	(452)	--	(150)	(362)
Net earnings	$ 18,000	$ 40,789	$ 16,477	$ 15,935
Net earnings per limited partnership unit:				
Basic earnings	$ .36	$ 1.55	$ .33	$ .61
Diluted earnings	$ .33	$ 1.43	$ .30	$ .57

	Three Months Ended			
	September 30,		December 31,	
	1998	1997	1998	1997
Revenues	$ 27,044	$ 16,054	$ 23,587	$ 22,042
Earnings before property and securities transactions	$ 18,251	$ 8,894	$ 12,118	$ 15,152
Gain (loss) on property transactions	2,683	2,364	(695)	2,764
Gain on sale of limited partnership interests	--	--	4,382	--
Provision for loss on mortgages receivable	--	--	--	(9,790)
Provision for loss on real estate	--	(343)	(578)	(380)
Net earnings	$ 20,934	$ 10,915	$ 15,227	$ 7,746
Net earnings per limited partnership unit:				
Basic earnings	$ .42	$ .36	$ .30	$ .14
Diluted earnings	$ .38	$ .36	$ .27	$ .14

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.

17. COMPREHENSIVE INCOME

The Company adopted SFAS No. 130 "Reporting Comprehensive Income" effective January 1, 1998. SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components. The components of comprehensive income include net income and certain amounts previously reported directly in equity.

Comprehensive income for the years ended December 31, 1998 and 1997 is as follows (in $ thousands):

	1998	1997	1996
Net Income	$70,638	$ 75,384	$57,822
Net unrealized gains on securities available for sale	9,273	--	23,548
Realized gains previously reported in partner's equity	--	(23,548)	--
	$79,911	$ 51,836	$81,370

18. SEGMENTED REPORTING

The Company is engaged in four operating segments consisting of the ownership and operation of (i) rental real estate (ii) hotel and resort operating properties (iii) property development, and (iv) investment in securities including investment in other limited partnerships and marketable equity securities. The Company's reportable segments offer different services and require different operating strategies and management expertise.

Non-segment revenue to reconcile to total revenue consists primarily of interest income on treasury bills and other investments. Non-segment assets to reconcile to total assets includes investment in treasury bills, cash and cash equivalents, investment in Stratosphere Corporation for 1998, receivables and other assets, and debt placement costs.

The accounting policies of the segments are the same as those described in Note 2.

The Company assesses and measures segment operating results based on segment earnings from operations as disclosed below. Segment earnings from operations is not necessarily indicative of cash available to fund cash requirements nor synonymous with cash flow from operations.

The revenues, net earnings, and assets and real estate investment capital expenditures for each of the reportable segments are summarized as follows for the year ended and as of December 31, 1998, 1997 and 1996 (in $000's).

Revenues:	1998	1997	1996
Rental real estate	$42,633	$41,763	$46,072
Hotel & resort operating properties	8,758	6,098	10,043
Other investments	14,714	7,405	4,462
Sub-total	66,105	55,266	60,577
Reconciling items	27,201(1)	15,652(1)	11,197
Total revenues	$93,306	$70,918	$71,774

(1) Primarily interest income on T-bills and other short-term investments and other income.

Net earnings:	1998	1997	1996
Segment earnings:			
Rental real estate	$ 39,984	$ 38,306	$ 41,661
Hotel and resort operating properties	1,113	1,146	2,382
Other investments	14,714	7,405	4,462
Total segment earnings	55,811	46,857	48,505
Interest income	25,180	15,198	8,045
Interest expense	(15,910)	(13,189)	(16,843)
Other income	2,021	454	3,152
General and administrative expenses	(3,808)	(3,188)	(2,939)
Depreciation and amortization	(4,923)	(5,112)	(5,680)
Earnings before property and securities transactions	58,371	41,020	34,240
Gain on sales and disposition of real estate	9,065	16,051	24,517
Gain on sale of limited partnership interests	4,382	--	--
Provision for loss on real estate	(1,180)	(1,085)	(935)
Provision for loss on mortgages receivable	--	(9,790)	--
Gain on sale of marketable equity securities	--	29,188	--

General partner's share	(1,406)	(1,500)	(1,151)
Net earnings-limited partner unitholders	$ 69,232	$ 73,884	$ 56,671

Assets:	1998	1997	1996
Rental real estate	$ 381,554	$ 383,392	$ 353,324
Development properties	12,830	3,860	3,860
Hotel and resort operating properties	22,037	5,002	12,955
Other investments	263,957	82,940	151,346
	680,378	475,194	521,485
Reconciling items	455,537	516,036	119,825
Total	$1,135,915	$ 991,230	$ 641,310
Real estate investment capital expenditures:			
Acquisitions:			
Rental real estate	$ 30,218	$ 63,064	$ 103
Development properties	8,970	--	--
Hotel and resort operating properties	17,444	--	--
	$ 56,632	$ 63,064	$ 103
Developments:			
Rental real estate	$ 112	$ 1,480	$ 6,996
Development properties	542	568	1,597
Hotel and resort operating properties	384	357	526
	$ 1,038	$ 2,405	$ 9,119

19. COMMITMENTS AND CONTINGENCIES

a. 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. In January 1999, Caldor announced it would liquidate its holding and close its stores. 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, 1998, the property has a carrying value of approximately $1,798,000 and is unencumbered by any mortgage.

b. On November 18, 1998, Ruth Ellen Miller filed a Class Action Complaint bearing the caption Ruth Ellen, on behalf of herself and all others similarly situated v. American Real Estate Partners, L.P., High Coast Limited Partnership, American Property Investors, Inc., Carl C. Icahn, Alfred Kinglsey, Mark H. Rachesky, William A. Leidesdorf, Jack G.

Wasserman and John P. Saldarelli in the Delaware Chancery Court in New Castle County (Civil Action No. 16788NC) (the "Complaint"). The Complaint purports to state claims on behalf of a putative class of all holders of Depositary Units sounding in breach of fiduciary duty, aiding and abetting breaches of fiduciary duty, injunction and breach of the Partnership Agreement. As of March 23, 1999, the complaint has not yet been served on any of the defendants.

Plaintiff alleges that all defendants, in breach of their fiduciary duties to the Company, have caused the Company to engage in self-dealing or self-interested transactions which inure to the benefit of defendants. Plaintiff's claims are alleged to arise out of two transactions: the February 1995 Rights Offering effectuated pursuant to a purportedly false and misleading prospectus; and Icahn's alleged use of his voting control to change the business purpose of the Company by amending the Partnership Agreement to permit the Company to make "non-real estate related investment," including investments in entities owned or controlled by Icahn.

The Complaint seeks to have Ms. Miller appointed as class representative and that the putative class be certified. The Complaint also seeks an unspecified amount in damages and injunctive relief: (i) dissolving the Partnership; (ii) enjoining API from continuing to act as general partner of the Partnership; (iii) enjoining the Partnership from engaging in any transaction in which Icahn has either a direct or indirect interest, absent an affirmative vote of a majority of the outstanding Depositary Units held by the putative class; and (iv) ordering API to exercise its fiduciary obligations. Further, the plaintiff seeks to enjoin the Company from engaging in any transactions in which Icahn has either a direct or indirect interest absent an affirmative vote by a majority of the outstanding Depositary Units held by the class, as well as damages resulting from the alleged breach of the partnership agreement for an unquantified amount. The Complaint also seeks costs and attorneys' fees. Management believes plaintiff's claims are without merit and intends to vigorously defend against them.

On or about September 9, 1997, two limited partners in the Company brought a derivative action against the Company, the General Partner, its directors and one of its officers, alleging breach of fiduciary duties by the defendants in connection with, inter alia, the Company's investments in Arvida and Stratosphere, Amanda & Kimberly Kahn v. Carl C. Icahn, et al., C.A. No. 15916 (Del. Ch.). Plaintiff's claimed that defendant Icahn improperly diverted opportunities to participate in these investments from the Company to himself. Plaintiffs sought damages arising from these alleged breaches of fiduciary duty, attorney's fees and other relief. On November 12, 1998, the Court of Chancery of the State of Delaware granted the defendants' motion to dismiss all of plaintiffs' claims against the defendants. Plaintiffs served a notice of appeal upon defendants on December 11, 1998. On March 11, 1999, the Company received a copy of plaintiffs' opening brief. The Company believes that the plaintiffs' appeal has no merit and it intends to vigorously oppose this appeal.

20. PROPERTY HELD FOR SALE

At December 31, 1998, the Company owned seven properties that were being actively marketed for sale. The aggregate value of the properties is estimated to be approximately $3,893,000 after incurring a provision for loss on real estate in the amount of $657,000 in the year ended December 31, 1998.

At December 31, 1997, the Company owned seven properties that were being actively marketed for sale. The aggregate value of the properties was estimated to be approximately $4,164, 000 after incurring a provision for loss on real estate in the amount of $240,000 in the year ended December 31, 1997. At December 31, 1996, the aggregate value of twelve properties was estimated to be approximately $3,698,000 after incurring a provision for loss on real estate in the amount of $275,000 in 1996.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and Cash Equivalents, Investment in Treasury Bills, Receivables, Mortgages Payable and Accounts Payable, Accrued Expenses and Other Liabilities

The carrying amount of cash and cash equivalents, investment in treasury bills, receivables, mortgages payable and accounts payable, accrued expenses and other liabilities are carried at cost, which approximates their fair value.

Mortgages and Notes Receivable

The fair values of the mortgages and notes 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 except for the Sands Hotel and Casino notes which are valued at quoted market prices. The fair values of the mortgages and notes receivable satisfied after year end are based on the amount of the net proceeds received.

The fair values of the mortgages and notes receivable which are current are based on the discounted cash flows of their respective payment streams except for the Claridge Corporation notes which are valued at quoted market prices.

The approximate estimated fair values of the mortgages receivable held as of December 31, 1998 are summarized as follows (in 000's):

Collateralized by Property Tenanted by or debtor	At December 31, 1998 Net Investment	Estimated Fair Value
Hardee's Food Systems, Inc.	$ 15	$ 197
Bank of Virginia	366	505
Easco Corp.	903	3,450
Winchester Partnership	1,039	1,049
Philip Services Corp.	35,240	35,240
Sands Hotel and Casino	11,190	11,190
Claridge Hotel and Casino Corp.	11,250	11,250

Collateralized by Property Tenanted by or debtor	At December 31, 1997 Net Investment	Estimated Fair Value
Hardee's Food Systems, Inc.	$ 15	$ 187
Bank of Virginia	359	474
Best Products Co., Inc.	173	169
Easco Corp.	916	3,450
Winchester Partnership	1,336	1,336
Stratosphere Corporation	33,021	33,021
New Seabury Company, L.P.	15,883	17,240

The net investment at December 31, 1998 and 1997 is equal to the carrying amount of the mortgage receivable less any deferred income recorded.

Marketable Equity Securities

Marketable equity securities available for sale are carried at fair market value.

Equity Interest in Stratosphere Corporation

The equity interest in Stratosphere Corporation whose fair value and carrying value at December 31, 1998 is $48,969,000 is valued using the equity method.

Senior Indebtedness

The approximate fair value and carrying value of the Company's senior indebtedness at December 31, 1997 was $11,756,000 and $11,308,000, respectively. The estimated fair value was based on the amount of future cash flows associated with the instrument discounted using the rate at which the Company believed it could 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.

22. 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. In the year ended December 31, 1997, approximately $1,020,000 of distributions due to non-consents was paid to certain states pursuant to local escheatment laws.

23. REPURCHASE OF DEPOSITARY UNITS

In October 1998, the Company repurchased 100,000 Depositary Units at a cost of $737,500. The Company had previously been authorized to repurchase up to 1,250,000 Depositary Units. As of December 31, 1998, the Company had purchased 1,137,200 Depositary Units at an aggregate cost of approximately $11,921,000.

24. SUBSEQUENT EVENTS

Pursuant to the terms of the Preferred Units, on February 23, 1999, the Company declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10. The distribution is payable March 31, 1999 to holders of record as of March 15, 1999.

Item 9. Changes in 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	63	Chairman of the Board
William A. Leidesdorf	53	Director
Jack G. Wasserman	62	Director
John P. Saldarelli	57	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 serves as a director of Cadus Pharmaceutical Corporation, a public biotechnology company. Mr. Icahn also has substantial equity interests in and controls various partnerships and corporations which invest in publicly traded securities. In October 1998, Mr. Icahn was appointed Chairman of the Board of Stratosphere.

William A. Leidesdorf has served as Director of the General Partner since March 26, 1991. Since June 1997, Mr. Leidesdorf has been an owner and a managing director of Renaissance National Housing, LLC, a company primarily engaged in acquiring multifamily residential properties. From April 1995 through December 1997, Mr. Leidesdorf 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. Mr. Wasserman also serves as a director of Cadus Pharmaceutical Corporation, a public biotechnology company. In addition, in 1998 Mr. Wasserman was appointed to the Board of Directors of National Energy Group, Inc., an independent energy company primarily engaged in the acquisition, exploitation, development, exploration and production of oil and natural gas.

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. In Octobr 1998, Mr. Saldarelli was appointed to the Board of Directors of Stratosphere.

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

Alfred D. Kingsley resigned from the Board of Directors on February 18, 1999 effective immediately.

Mr. Icahn 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. See Item 12. "Security Ownership of Certain Beneficial Owners and Management."

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. Directors who are not employed by AREP or certain affiliates, receive fees of $3,000 for attendance at each meeting of the Board of Directors. Mr. Kingsley, Mr. Leidesdorf and Mr. Wasserman each received $15,000 for attendance at such meetings in 1998. In addition, directors who are not employed by AREP or certain affiliates may receive additional fees for special meetings of or services rendered on behalf of the Audit Committee.

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, 1998.

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, 1998, 1997 and 1996.(2)

SUMMARY COMPENSATION TABLE
Annual Compensation

(a) Name and Principal Position	(b) Year	(c) Salary ($)
John P. Saldarelli(3)	1998	148,000
Vice President, Secretary and Treasurer	1997	136,000
	1996	132,300

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.

On November 20, 1998, affiliates of Icahn (the "Purchaser") made an offer to purchase up to 10,000,000 of the outstanding Depositary Units at a purchase price of $10.50 per Depositary Unit, net to

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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 officer and directors of the General Partner devote only a portion of their time to performance of services for AREP.

the seller in cash, without interest (the "1998 Tender Offer"). As of March 1, 1999, affiliates of Icahn, including High Coast Limited Partnership, a Delaware limited partnership, owned 38,083,209 Depositary Units, or approximately 82.6% of the outstanding Depositary Units, and 6,642,067 Preferred Units, or approximately 86.5% of the outstanding Preferred Units.

The affirmative vote of Unitholders holding more than 75% of the total number of all Depositary 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 affiliates, holds approximately 82.6% of the Depositary Units outstanding, 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 affiliates of Icahn, 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 affiliates of Icahn hold in excess of 50% of the Depositary Units outstanding, Icahn, through affiliates, will have effective control over such approval rights.

The following table provides information, as of March 5, 1999, 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)	38,083,209	82.6%	6,642,067	86.5%
All directors and executive officers as a group (4 persons)	38,083,209	82.6%	6,642,067	86.5%

As described above, affiliates of Icahn hold 82.6% of the Depositary Units and 86.5% of the outstanding Preferred Units. Entities directly or indirectly owned by Icahn that are members of a controlled group for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 414 of the Internal Revenue Code of 1986, as amended (the "Code"), which in general terms includes entities in which there is at least 80% common ownership, may have joint and several responsibility for various benefits-related liabilities arising under ERISA and the Code. As a

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(1) Carl C. Icahn, through affiliates, is the beneficial owner of the 38,083,209 Depositary Units set forth above and may also be deemed to be the beneficial owner of the 28,642 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 affiliates of Icahn acquired through the 1997 Offering and the 1998 Tender Offer. Furthermore, pursuant to a registration rights agreement entered into by affiliates of Icahn in connection with the 1997 Offering, AREP has agreed to pay any expenses incurred in connection with two demand and unlimited piggy-back registrations requested by affiliates of Icahn.

result of the more than 80% ownership interest in AREP of Icahn and his affiliates, AREP will be deemed to be included in the same controlled group that includes ACF and Pichin Corp. ("Pichin"), an affiliate of ACF (the "Controlled Group").

ERISA and the Code require, among other things, that a contributing sponsor of a defined benefit pension plan make certain minimum funding contributions to fund the benefits that participants accrue under the pension plan and make the sponsor liable for any unfunded benefit liabilities that may exist at termination. As a member of the Controlled Group, AREP would be jointly and severally liable with the other members of the Controlled Group for such potential pension plan minimum funding and termination liabilities. In addition, upon the failure to make minimum funding contributions in excess of $1 million when due or pay termination liabilities after demand by the Pension Benefit Guaranty Corporation (the "PBGC"), liens in favor of the relevant pension plans or the PBGC, respectively, would attach to the assets of all members of the sponsor's controlled group.

ACF and other members of the Controlled Group sponsor several pension plans (the "ACF Pension Plans") which (not including the "TWA Plans," as defined below) are underfunded in the aggregate by approximately $26 million on an ongoing actuarial basis and by approximately $91 million on a termination basis, in each case as most recently determined by the plans' actuaries. The liability upon plan termination could be more or less than this amount depending on future changes in promised benefits, investment returns, the assumptions used to calculate the liability and the outcome of any litigation relating to the amount of liability. As a member of the Controlled Group, AREP is jointly and severally liable for any failure of ACF or any other member of the Controlled Group to make minimum funding contributions or pay termination liabilities with respect to the ACF Pension Plans.

Pursuant to a settlement entered into in 1993 by the PBGC and TWA (the "Settlement"), among others, in connection with the Chapter 11 bankruptcy case of TWA, as amended and revised to date, Pichin became the sponsor directly liable for minimum funding obligations of the pension plans for TWA employees (the "TWA Plans"), which TWA Plans had theretofore been frozen. As a member of the Controlled Group (which includes Pichin), AREP would be jointly and severally liable, together with all the other entities in the Controlled Group, for minimum funding obligations applicable with respect to the TWA Plans. However, under the Settlement, Pichin has the right to terminate the minimum funding obligations with respect to the TWA Plans by causing a termination of those plans. In the event of a termination of the TWA Plans, termination payments are limited under the Settlement to $30 million per year for eight years and the PBGC's recourse for those termination payments is limited to collateral pledged to secure those payments. Control over making minimum funding payments and the decision whether to seek termination of the TWA Plans is ultimately in the control of Icahn.

The current underfunded status of the ACF Pension Plans and the TWA Plans requires ACF and Pichin to notify the PBGC of certain corporate transactions that are deemed to be "reportable events" under ERISA. Such reportable events include, among other things, any transaction which would result in a Controlled Group member's leaving the Controlled Group, and certain extraordinary dividends and stock redemptions. Thus, any transaction in which AREP would cease to be a member of the Controlled Group and certain extraordinary distributions and redemptions with respect to the Units would be among those that would have to be reported to the PBGC.

Starfire Holding Corporation, a Delaware corporation ("Starfire"), which is directly 100% owned by Icahn, has undertaken to indemnify AREP from losses resulting from any imposition of termination or minimum funding liabilities on AREP or its assets. The Starfire indemnity provides, among other things, that so long as such contingent liabilities exist and could be imposed on AREP, Starfire will not make any distributions to its stockholders that would reduce its net worth to below $250 million.

Item 13. Certain Relationships and Related Transactions.

Related Transactions with the General Partner and its Affiliates

Icahn, in his capacity as majority Unitholder, will not receive any additional benefit with respect to distributions and allocations of profits and losses not shared on a pro rata basis by all other Unitholders. In addition, Icahn has confirmed to AREP that neither he nor any of his affiliates will receive any fees from AREP in consideration for services rendered in connection with non-real estate related investments by AREP such as advice to purchase RJR shares which generated $29 million of profits for AREP in 1997. AREP may determine to make investments in which Icahn or his affiliates have independent investments in such assets; in addition, AREP may enter into other transactions with the General Partner and its affiliates, including, without limitation, buying and selling assets from or to the General Partner or its affiliates and participating in joint venture investments in assets with the General Partner or its affiliates, whether real estate or non-real estate related, provided the terms of all such transactions are fair and reasonable to AREP. Furthermore, it should be noted that the Partnership Agreement provides that the General Partner and its affiliates are permitted to have other business interests and may engage in other business ventures of any nature whatsoever, and may compete directly or indirectly with the business of AREP. Icahn and his affiliates currently invest in and perform investment management services with respect to assets that may be similar to those AREP may invest in and intend to continue to do so; pursuant to the Partnership Agreement, however, AREP shall not have any right to participate therein or receive or share in any income or profits derived therefrom. See Item 1. "Business - Investment in RJR" and "Investment in Limited Partnership Units."

For the years ended December 31, 1998 and 1997, AREP made no payments with respect to the Depositary Units owned by the General Partner. However, in 1997 and 1998 the General Partner was allocated approximately $1,500,000 and approximately $1,406,000, respectively, of the income of AREP as a result of its 1.99% general partner interest in AREP.

On March 31, 1998, Icahn received 316,289 Preferred Units as part of AREP's scheduled annual preferred unit distribution and is expected to receive an additional 332,000 Preferred Units in March 1999 as part of such scheduled annual preferred unit distribution.

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 $62,000 in rent paid by AREP on its behalf during 1998 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 Affiliate. Such allocations and the terms of the sublease were reviewed and approved by the Audit Committee. In addition, in 1997 AREP entered into a license agreement for a portion of office space from an affiliate of the General Partner. The license agreement dated as of February 1, 1997 expires May 22, 2004 unless sooner terminated in accordance with the agreement. Pursuant to the license agreement, AREP has the non-exclusive use of approximately 3,547 square feet of office space and common areas (of an aggregate 21,123 rentable square feet sublet by such affiliate) for which it pays $17,067.78 per month, together with 16.79% of certain "additional rent". In 1998, AREP paid an affiliate of the General Partner $216,000 of rent in connection with this licensing agreement. In connection with the build-out of the space, AREP reimbursed such affiliate $486,989, representing AREP's allocable share of such costs

net of a pro rata share of the sub-lessor's allowance for such build-out. The terms of such sublease were reviewed and approved by the Audit Committee.

See Item 12. "Security Ownership of Certain Beneficial Owners and Management" for a discussion of the 1998 Tender Offer made by affiliates of Icahn and the Icahn Controlled Group pension liability considerations.

Property Management and Other Related Transactions

The General Partner and its affiliates may receive fees in connection with the acquisition, sale, financing, development, construction, marketing 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 the Partnership 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 therewith 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.

AREP has engaged Bayswater Realty & Capital Corp., an affiliate of the General Partner, to perform development, construction management, marketing and sales services with respect to three residential development sites located in New Seabury, Massachusetts, Armonk, New York and East Hampton, New York respectively. It is presently anticipated that Bayswater would be reimbursed a pro rata portion of the salaries, benefits and related expenses for the personnel performing such services, plus all reasonable and customary out of pocket expenses incurred in connection with performing such services. Such reimbursements will be subject to review and approval by the Audit Committee. As Bayswater's services continue or expand, AREP may enter into additional agreements with and pay fees to Bayswater upon the terms generally described above, provided such agreements and fees are fair and reasonable to AREP and approved by the Audit Committee. In the first quarter of 1999, AREP reimbursed Bayswater approximately $98,500 for such services rendered and expenses in connection therewith.

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. In 1998 there were no such amounts. In addition, an affiliate of the General Partner provided certain administrative services to AREP in the amount of approximately $3,500 in 1998.

The Audit Committee 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.

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:

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).

10.10 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).

10.14 Subscription Guaranty Agreement between AREP and the Guarantor (filed as Exhibit 4.10 to Amendment No. 1 to AREP's Registration Statement on Form S-3 (Registration No. 333-31561) and incorporated herein by reference).

10.15	Registration Rights Agreement between AREP and the Guarantor (filed as Exhibit 4.11 to Amendment No. 1 to AREP's Registration Statement on Form S-3 (Registration No. 333-31561) and incorporated herein by reference).
10.16	Subscription Agent Agreement filed as Exhibit 99.1 to AREP's Registration Statement on Form S-3 (Registration No. 333-31561) 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) A Form 8-K was filed on March 31, 1998 regarding a March 26, 1998 announcement of 1997 fourth quarter and full year financial results and that no distributions were expected during 1998.

(2) A Form 8-K was filed on November 23, 1998 regarding the announcement of a tender offer for its Depositary Units made by affiliates of Icahn.

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, 1999.

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, 1999
/s/William A. Leidesdorf William A. Leidesdorf	Director	March 31, 1999
/s/Jack G. Wasserman Jack G. Wasserman	Director	March 31, 1999
/s/John P. Saldarelli	Treasurer	March 31, 1999

- ------------------------ (Principal Financial
John P. Saldarelli Officer and Principal
Accounting Officer

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

Schedule III
Page 1

REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1998 - 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 LAND AND BUILDING							
Acme Markets, Inc. and FPBT of Penn.	PA	1		$2,004,393		$2,004,393	$1,427,071
Alabama Power Company	AL	5	$3,867,849				
Amer Stores and The Fidelity Bank	PA	1					
Amer Stores, Grace, & Shottenstein Stores	NJ	1		2,043,567		2,043,567	1,543,113
American Recreation Group, Inc.	NC	1					
Amterre Ltd. Partnership	PA	1					
Best Products Co., Inc.	VA	1		3,303,553		3,303,553	
Caldor, Inc.	MA	1					
Chesebrough-Pond's Inc.	CN	1		1,549,805		1,549,805	1,129,605
Chomerics, Inc.	MA	1					
Collins Foods International, Inc.	OR	3		169,048		169,048	
Collins Foods International, Inc.	CA	1		87,810		87,810	
David Miller of California	CA	1					
Dillon Companies, Inc.	MO	1		546,681		546,681	322,954
Dillon Companies, Inc.	LA	6		1,555,112		1,555,112	866,200
Druid Point Bldg.	GA	1					
Duke Power Co.	NC	1	2,578,397				
European American Bank and Trust Co.	NY	1		1,355,210		1,355,210	1,284,888
Farwell Bldg.	MN	1	697,341	5,073,279		5,073,279	1,339,032
Federated Department Stores, Inc.	CA	1					
First National Supermarkets, Inc.	CT	1	13,271,593				
First Union National Bank	NC	1					
Fisher Scientific Company	IL	1		597,806		597,806	165,290
Forte Hotels International, Inc.	NJ	1					
Forte Hotels International, Inc.	TX	1					
Fox Grocery Company	WV	1	1,031,000				
Gino's, Inc.	MO	1		209,213		209,213	
Gino's, Inc.	CA	1		225,100		225,100	
Gino's, Inc.	OH	1		201,938		201,938	
Gino's, Inc.	IL	1		235,972		235,972	
Gino's, Inc.	NJ	1					
Golf Road	IL	1	7,104,423	9,292,656	(14,492)	9,278,164	278,780
Grand Union Co.	NJ	1		430,664		430,664	
Grand Union Co.	MD	1		372,383		372,383	254,735
Grand Union Co.	NY	3		1,091,020	(7,000)	1,084,020	
Grand Union Co.	NY	1					

REAL ESTATE OWNED AND REVENUES EARNED

	Part 1 - Real estate owned at December 31, 1998 - Accounted for under the:			Part 2 - Revenues earned for the Year ended December 31, 1998		
	Operating Method	Financing Method				
	Rent due and accrued or received in advance at and 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 LAND AND BUILDING						
Acme Markets, Inc. and FPBT of Penn.	($20,491)			$245,888	$39,333	$206,555
Alabama Power Company		$7,170,726		766,425	390,867	375,558
Amer Stores and The Fidelity Bank		565,753	($6,208)	74,711	0	74,711
Amer Stores, Grace, & Shottenstein Stores	(10,228)			142,735	92,063	50,672
American Recreation Group, Inc.				350,700 (3)	45,304	305,396
Amterre Ltd. Partnership				288,480	284,990	3,490
Best Products Co., Inc.				1,358,287 (3)	477,265	881,022
Caldor, Inc.		1,797,980		172,506	(674)	173,180
Chesebrough-Pond's Inc.	(11,770)			141,236	19,580	121,656
Chomerics, Inc.		5,980,904	(1,843)	766,423	0	766,423
Collins Foods International, Inc.	(2,707)	81,764		32,489	7,057	25,432
Collins Foods International, Inc.		46,444		17,646	(3,502)	21,148
David Miller of California				63,482	58,250	5,232

Dillon Companies, Inc.	(2,804)			53,966	15,034	38,932
Dillon Companies, Inc.	(19,668)			186,542	10,902	175,640
Druid Point Bldg.				515,700	490,278	25,422
Duke Power Co.		4,370,712		451,619	266,166	185,453
European American Bank and Trust Co				175,000	0	175,000
Farwell Bldg.				985,249	452,821	532,428
Federated Department Stores, Inc.				18,689	2,312	16,377
First National Supermarkets, Inc.		23,178,919	(221,459)	2,150,454	1,295,366	855,088
First Union National Bank		536,071		50,291	0	50,291
Fisher Scientific Company				163,000	25,264	137,736
Forte Hotels International, Inc.		6,273,466	(59,447)	573,855	10,737	563,118
Forte Hotels International, Inc.				0	6,000	(6,000)
Fox Grocery Company		3,108,735		281,568	100,845	180,723
Gino's, Inc.		143,567		31,885	279	31,606
Gino's, Inc.		136,700		41,186	10,424	30,762
Gino's, Inc.		122,260		37,739	298	37,441
Gino's, Inc.		127,073		44,246	672	43,574
Gino's, Inc.				0	98	(98)
Golf Road				800,220	570,894	229,326
Grand Union Co.		400,088		83,078	0	83,078
Grand Union Co.				33,750	55,229	(21,479)
Grand Union Co.		1,031,255		214,140	76	214,064
Grand Union Co.				85,142	21,785	63,357

REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1998 - 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
Grand Union Co.	VA	1		266,468		266,468	182,578
Grand Union Co.	NY	1	4,357,591				
Gunite	IN	1	98,618	1,134,565		1,134,565	1,065,034
G.D. Searle & Co.	MD	1		299,229		299,229	151,206
G.D. Searle & Co.	MN	1					
G.D. Searle & Co.	AL	1		0		0	0
G.D. Searle & Co.	IL	1		256,295		256,295	167,219
G.D. Searle & Co.	MN	1		339,358		339,358	152,816
G.D. Searle & Co.	IL	1		323,559		323,559	227,999
G.D. Searle & Co.	TN	1		214,421		214,421	150,365
G.D. Searle & Co.	TN	1		0		0	0
G.D. Searle & Co.	MD	1		325,891		325,891	152,165
Haverty Furniture Companies, Inc.	GA	1					
Haverty Furniture Companies, Inc.	FL	1					
Haverty Furniture Companies, Inc.	VA	1					
Holiday Inn	AZ	1					
Integra A Hotel and Restaurant Co.	AL	2		245,625		245,625	
Integra A Hotel and Restaurant Co.	IL	1		198,392		198,392	
Integra A Hotel and Restaurant Co.	IN	1		231,513		231,513	
Integra A Hotel and Restaurant Co.	OH	1					
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		559,644		559,644	455,593
J.C. Penney Company, Inc.	MA	1		2,484,262		2,484,262	1,667,822
Kelley Springfield Tire Company	TN	1		120,946		120,946	75,200
K-Mart Corporation	LA	1					
K-Mart Corporation	WI	1					
K-Mart Corporation	FL	1					
K-Mart Corporation	MN	1	480,000				
K-Mart Corporation	FL	1		2,760,118		2,760,118	1,721,199
K-Mart Corporation	IA	1					
K-Mart Corporation	FL	1		2,636,000		2,636,000	1,802,441
K-Mart Corporation	IL	1	221,616				
Kobacker Stores, Inc.	MI	3		163,687		163,687	
Kobacker Stores, Inc.	KY	1		88,364		88,364	
Kobacker Stores, Inc.	OH	5		354,030		354,030	
Kraft, Inc.	NC	1					

Part 1 - Real estate owned at December 31, 1998 - Accounted for under the:			Part 2 - Revenues earned for the Year ended December 31, 1998		
Operating Method	Financing Method				
Rent due and accrued or received in advance at and 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

Grand Union Co.				24,150	3,579	20,571
Grand Union Co.		7,066,958		655,951	458,981	196,970
Gunite	(19,422)			228,500	12,373	216,127
G.D. Searle & Co.				27,000	5,372	21,628
G.D. Searle & Co.				9,235	3,638	5,597
G.D. Searle & Co.				0	5,047	(5,047)
G.D. Searle & Co.	(1,918)			23,013	13,190	9,823
G.D. Searle & Co.				30,614	5,551	25,063
G.D. Searle & Co.				35,397	6,795	28,602
G.D. Searle & Co.				18,740	0	18,740
G.D. Searle & Co.				0	7,472	(7,472)
G.D. Searle & Co.				28,598	5,365	23,233
Haverty Furniture Companies, Inc.		569,072		51,975	6,494	45,481
Haverty Furniture Companies, Inc.		431,114	(983)	39,375	11,800	27,575
Haverty Furniture Companies, Inc.		548,863		50,390	11,256	39,134
Holiday Inn				0	(1,949)	1,949
Integra A Hotel and Restaurant Co.		1,294,285		229,320	1,850	227,470
Integra A Hotel and Restaurant Co.		407,298		98,632	925	97,707
Integra A Hotel and Restaurant Co.		558,438		117,946	925	117,021
Integra A Hotel and Restaurant Co.		553,590		81,721	925	80,796
Integra A Hotel and Restaurant Co.		415,355		103,448	925	102,523
Integra A Hotel and Restaurant Co.		519,979		133,483	925	132,558
Integra A Hotel and Restaurant Co.		530,837		134,073	925	133,148
Intermountain Color				83,971	32,295	51,676
J.C. Penney Company, Inc.	(41,707)			250,244	80,071	170,173
Kelley Springfield Tire Company				11,449	0	11,449
K-Mart Corporation		1,639,289		138,196	2,300	135,896
K-Mart Corporation		1,865,041		168,524	2,300	166,224
K-Mart Corporation		2,117,236		204,209	2,300	201,909
K-Mart Corporation		1,730,587	(16,000)	142,142	25,194	116,948
K-Mart Corporation	135,000			140,414	186,730	(46,316)
K-Mart Corporation		1,325,808		125,099	2,300	122,799
K-Mart Corporation		1,743,794		406,510	41,162	365,348
K-Mart Corporation		937,314		75,184	23,659	51,525
Kobacker Stores, Inc.		309,215		60,430	3,700	56,730
Kobacker Stores, Inc.		96,326		18,843	4,192	14,651
Kobacker Stores, Inc.		589,121		90,401	7,305	83,096
Kraft, Inc.				0	46,728	(46,728)

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, 1998 - 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
Landmark Bancshares Corporation	MO	1					
Levitz Furniture Corporation	NY	1		988,463		988,463	
Lockheed Corporation	CA	1		2,449,469		2,449,469	
Louisiana Power and Light Company	LA	8	2,378,572				
Louisiana Power and Light Company	LA	7	1,422,886	3,491,431		3,491,431	
Marsh Supermarkets, Inc.	IN	1		5,001,933		5,001,933	2,365,163
Montgomery Ward, Inc.	PA	1		3,289,166		3,289,166	2,170,123
Montgomery Ward, Inc.	NJ	1					
Morrison, Inc.	AL	1		324,288		324,288	
Morrison, Inc.	GA	1		347,404		347,404	
Morrison, Inc.	FL	1		375,392		375,392	
Morrison, Inc.	VA	2		363,059		363,059	
North Carolina National Bank	SC	2		1,450,047		1,450,047	522,346
Occidental Petroleum Corp.	CA	1	1,727,522				
Ohio Power Co. Inc.	OH	1					
Old National Bank of Washington	WA	1					
Park West	KY	1	12,498,202	19,020,000	79,418	19,099,418	464,583
Park West UPS	KY	1	19359869	21,106,313		21,106,313	185,675
Penske Corp.	OH	1	7,195				
Pneumo Corp.	OH	1	708,484				
Portland General Electric Company	OR	1	44,484,262				
Rouse Company	MD	1	2,919,305				
Safeway Stores, Inc.	LA	1		1,782,885		1,782,885	1,074,469
Sams	MI	1	5,464,813	8,844,225		8,844,225	1,533,157
Smith's Management Corp.	NV	1	338,472				
Southland Corporation	FL	5		1,162,971		1,162,971	672,935
Staples	NY	1		2,457,582	26,570	2,484,152	75,368
Stone Container	WI	1		9,028,034		9,028,034	88,649
Stop 'N Shop Co., Inc.	NY	1		5,013,507		5,013,507	3,657,364
Stop 'N Shop Co., Inc.	VA	1	713,202				
Super Foods Services, Inc.	MI	1	6,325,398				
SuperValu Stores, Inc.	MN	1		1,370,965		1,370,965	238,627
SuperValu Stores, Inc.	OH	1		3,000,671		3,000,671	532,883
SuperValu Stores, Inc.	GA	1		2,344,836		2,344,836	413,084
SuperValu Stores, Inc.	IN	1		2,267,573		2,267,573	399,093
Telecom Properties, Inc.	OK	1					
Telecom Properties, Inc.	KY	1		281,253		281,253	
The A&P Company	MI	1					

Part 1 - Real estate owned at December 31, 1998 - Accounted for under the:

Part 2 - Revenues earned for the Year ended December 31, 1998

	Operating Method	Financing Method				
	Rent due and accrued or received in advance at and 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
Landmark Bancshares Corporation		4,481,277		631,058	2,300	628,758
Levitz Furniture Corporation	(13,017)	2,003,204	(27,661)	341,983	34	341,949
Lockheed Corporation	(52,793)	4,012,497	(107,624)	831,834	2,552	829,282
Louisiana Power and Light Company		11,505,823		1,501,578	280,557	1,221,021
Louisiana Power and Light Company		4,060,947		977,761	170,560	807,201
Marsh Supermarkets, Inc.				563,504	231,479	332,025
Montgomery Ward, Inc.				314,280	49,750	264,530
Montgomery Ward, Inc.		1,513,413	(4,105)	182,711	2,300	180,411
Morrison, Inc.		684,449		130,267	925	129,342
Morrison, Inc.		654,004		130,484	925	129,559
Morrison, Inc.		692,411		137,883	925	136,958
Morrison, Inc.		1,712,949		267,701	925	266,776
North Carolina National Bank				148,249 (3)	59,140	89,109
Occidental Petroleum Corp.				0	242,459	(242,459)
Ohio Power Co. Inc.		3,865,306		361,580	0	361,580
Old National Bank of Washington				225,741	177,005	48,736
Park West				1,801,210	1,190,865	610,345
Park West UPS				755,506	806,308	(50,802)
Penske Corp.		543,865		74,924	5,491	69,433
Pneumo Corp.		2,149,779		212,259	75,306	136,953
Portland General Electric Company		51,384,934		4,440,732	3,303,302	1,137,430
Rouse Company		6,162,704		547,302	311,162	236,140
Safeway Stores, Inc.				85,150	15,514	69,636
Sams	(90,412)			1,086,487	177,483	909,004
Smith's Management Corp.		812,265		73,337	35,897	37,440
Southland Corporation				127,573	15,457	112,116
Staples				280,245	346,344	(66,099)
Stone Container	(67,263)			299,427	97,103	202,324
Stop 'N Shop Co., Inc.				454,145	82,474	371,671
Stop 'N Shop Co., Inc.		2,688,102		243,897	71,918	171,979
Super Foods Services, Inc.		10,019,445		1,067,870	554,407	513,463
SuperValu Stores, Inc.				114,885	26,679	88,206
SuperValu Stores, Inc.				319,834	58,394	261,440
SuperValu Stores, Inc.				224,215	45,631	178,584
SuperValu Stores, Inc.				194,954	44,128	150,826
Telecom Properties, Inc.		110,415		10,475	363	10,112
Telecom Properties, Inc.		94,908		36,496	940	35,556
The A&P Company		1,619,959		170,983	2,300	168,683

REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1998 - 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
The TJX Companies, Inc.	IL	1					
Toys "R" Us, Inc.	TX	1	814,219	501,836		501,836	
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		8,378,095		8,378,095	610,224
Watkins	MO	1		965,741		965,741	102,190
Webcraft Technologies	MD	1	426,766	780,774		780,774	148,670
Wetterau, Inc.	PA	1					
Wetterau, Inc.	NJ	2					
Wickes Companies, Inc.	CA	2	923,463	2,447,297		2,447,297	1,293,630
RESIDENTIAL PROPERTY LAND AND BUILDING							
Crown Cliffs	AL	1	8,277,128	11,065,875	13,884	11,079,759 (2)	1,590,656
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					
Gino's, Inc.	PA	1		36,271		36,271	
Gino's, Inc.	MI	1					
Gino's, Inc.	MA	2		102,048		102,048	
Gino's, Inc.	NJ	1		61,050		61,050	
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	

	State	No. of Locations	Amount of Encumbrances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
COMMERCIAL PROPERTY - BUILDING							
Bank South	GA	1					
Harwood Square	IL	1		6,803,769	50,883	6,854,652	3,193,782
Lockheed Corporation	CA	1					

	Part 1 - Real estate owned at December 31, 1998 - Accounted for under the:			Part 2 - Revenues earned for the Year ended December 31, 1998		
	Operating Method	Financing Method				
	Rent due and accrued or received in advance at and 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
The TJX Companies, Inc.		2,561,944	(50,276)	235,248	2,300	232,948
Toys "R" Us, Inc.		1,083,015		140,905	61,487	79,418
USA Petroleum Corporation		54,090		37,441	0	37,441
USA Petroleum Corporation		77,831		18,900	0	18,900
USA Petroleum Corporation		65,387		31,676	0	31,676
Waban				694,388	650,031	44,357
Watkins	(9,650)			115,800	28,516	87,284
Webcraft Technologies				171,353	75,032	96,321
Wetterau, Inc.		763,833	(910)	82,828	0	82,828
Wetterau, Inc.		1,656,414		175,352	3,831	171,521
Wickes Companies, Inc.	3,676			588,030	277,156	310,874
RESIDENTIAL PROPERTY LAND AND BUILDING						
Crown Cliffs				1,733,748	1,768,225	(34,477)
COMMERCIAL PROPERTY - LAND						
Easco Corp.	20,833			12,400	358	12,042
Foodarama supermarkets, Inc.				14,000	0	14,000
Foodarama supermarkets, Inc.				12,000	0	12,000
Gino's, Inc.				3,571	0	3,571
Gino's, Inc.				7,138	0	7,138
Gino's, Inc.				6,398	4,271	2,127
Gino's, Inc.				14,286	0	14,286
Gino's, Inc.				7,143	0	7,143
J.C. Penney Company, Inc.				5,500	2,300	3,200
Levitz Furniture Corporation	(332)			132,861	(2,475)	135,336
Levitz Furniture Corporation				47,009	9,743	37,266
COMMERCIAL PROPERTY - BUILDING						
Bank South		3,635,209		371,201	44,595	326,606
Harwood Square				805,599	228,766	576,833
Lockheed Corporation				112,918	0	112,918

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1998 - 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
Safeway Stores, Inc.	CA	1		558,652		558,652	534,615
Toys "R" Us, Inc.	RI	1					
United Life & Accident Ins. Co.	NH	1					
Wickes Companies, Inc.	PA	1					
Weigh-Tronix, Inc.	CA	1					
Baptist Hospital 1	TN	1	22,653,010				
Baptist Hospital 2	TN	1	8,407,763				
HOTEL AND RESORT OPERATING PROPERTIES							
Holiday Inn	FL	1		7,203,982	383,627	7,587,609	2,777,420
New Seabury	MA	1		17,443,596		17,443,596	215,898
DEVELOPMENT PROPERTIES							
Dellwood	NY	1		3,120,317		3,120,317	
Grassy Hollow	NY	1		601,135		601,135	
East Syracuse	NY	1		138,108		138,108	
New Seabury	MA	1		8,970,039		8,970,039	
			$173,558,959	$211,412,457	$532,890	$211,945,347(1)	$41,443,909(1)

	Part 1 - Real estate owned at December 31, 1998 - Accounted for under the: Operating Method		Financing Method	Part 2 - Revenues earned for the Year ended December 31, 1998		
	Rent due and accrued or received in advance at and 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
Safeway Stores, Inc.				26,900	22,969	3,931
Toys "R" Us, Inc.		998,046		95,310	2,300	93,010
United Life & Accident Ins. Co.		4,231,871	(43,667)	358,963	2,300	356,663
Wickes Companies, Inc.		3,129,711	(46,366)	445,945	459	445,486
Weigh-Tronix, Inc.		2,261,569		297,265 (3)	11,121	286,144
Baptist Hospital 1		25,027,701	921,265	1,976,181	1,788,771	187,410
Baptist Hospital 2		9,278,541	341,931	733,468	663,910	69,558
HOTEL AND RESORT OPERATING PROPERTIES						
Holiday Inn				4,222,839 (4)	4,454,239	(231,400)
New Seabury				4,631,633	4,279,323	352,310
DEVELOPMENT PROPERTIES						
Dellwood				0	0	0
Grassy Hollow				0	0	0
East Syracuse				0	0	0
New Seabury				0	0	0
	($204,673)	$245,919,755	$676,647	$53,170,221	$28,637,443	$24,532,778

(1) Amount shown includes hotel operating properties.

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

(3) Amount shown includes other income which totaled $1,682,787.

(4) Amount shown includes other income which totaled $96,532.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1998

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

Balance - January 1, 1998	$ 168,968,239
Additions during period	57,080,872
Write downs	(271,000)
Reclassifications during period to assets held for sale	(1,280,333)
Disposals during period	(12,552,431)
Balance - December 31, 1998	$ 211,945,347

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, 1998	$ 42,369,888
Depreciation during period	4,246,969
Disposals during period	(4,807,794)
Reclassifications during period to property held for sale	(365,154)
Balance - December 31, 1998	$ 41,443,909

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, 1998	$ 265,656,836
Additions during period	28,455
Disposals during period	(11,355,448)
Amortization of unearned income	24,287,140
Minimum lease rentals received	(32,174,228)
Write downs	(523,000)
Balance - December 31, 1998	$ 245,919,755

3. The aggregate cost of real estate owned for Federal income tax purposes is $362,116,104.

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1998

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	$ 24,532,778
Add: Interest income on treasury bills and other investments	28,213,058
Dividend and unallocated other income	11,922,713
	64,668,549
Deduct expenses not allocated:	
General and administrative expenses	3,808,227
Nonmortgage interest expense	2,105,671
Other	383,901

	6,297,799
Earnings before gain on property and securities transactions	58,370,750
Provision for loss on real estate	(1,180,000)
Gain on sale of limited partnership interests	4,382,048
Gain on sale of real estate	9,065,423
Net earnings	$ 70,638,221

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1997

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

Balance - January 1, 1997	$ 160,112,640
Additions during period	28,946,473
Write downs	(704,782)
Reclassifications during period from financing leases	4,000,824
Reclassifications during period to assets held for sale	(3,763,071)
Disposals during period	(19,623,845)
Balance - December 31, 1997	$ 168,968,239

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, 1997	$ 43,754,936
Depreciation during period	3,849,795
Disposals during period	(3,752,894)
Reclassifications during period to assets held for sale	(1,481,949)
Balance - December 31, 1997	$ 42,369,888

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated 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, 1997	$ 253,781,903
Additions during period	34,750,966
Write downs	(380,000
Reclassifications during period	(4,000,824)
Disposals during period	(10,812,126)
Amortization of unearned income	25,146,392
Minimum lease rentals received	(32,829,475)
Balance - December 31, 1997	$ 265,656,836

3. The aggregate cost of real estate owned for Federal income tax poses is $361,474,634.

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1997

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	$ 23,815,644
Add: Interest income on Treasury bills and other investments	16,726,520
Dividend and unallocated other income	6,334,348
	46,876,512
Deduct expenses not allocated:	
General and administrative expenses	3,187,794
Nonmortgage interest expense	1,525,796
Other	1,143,306
	5,856,896
Earnings before gain on property and securities transactions	41,019,616
Provision for loss on mortgages receivable	(9,790,000)
Provision for loss on real estate	(1,084,782)
Gain on sales of real estate	16,051,491
Gain on sale of marketable equity securities	29,188,087
Net earnings	$ 75,384,412

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1996

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

Balance - January 1, 1996	$ 193,311,259
Additions during period	11,991,211
Write downs	(660,000)
Reclassifications during period from financing leases	233,879
Reclassifications during period to assets held for sale	(6,110,905)
Disposals during period	(38,652,804)
Balance - December 31, 1996	$ 160,112,640

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, 1996	$ 49,406,334
Depreciation during period	4,895,252
Disposals during period	(6,530,965)
Reclassifications during period to assets held for sale	(4,015,685)
Balance - December 31, 1996	$ 43,754,936

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, 1996	$ 281,532,529
Other	(988)
Reclassifications during period	(233,879)
Disposals during period	(20,201,810)
Amortization of unearned income	26,073,205
Minimum lease rentals received	(33,387,154)
Balance - December 31, 1996	$ 253,781,903

3. The aggregate cost of real estate owned for Federal income tax purposes is $340,405,247.

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1996

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	$ 27,911,271
Add: Interest income on treasury bills and other investments	9,866,131
Dividend and unallocated other income	3,083,548
	40,860,950
Deduct expenses not allocated:	
General and administrative expenses	2,938,684
Nonmortgage interest expense	2,604,345
Other	1,077,736
	6,620,765
Earnings before gain on property and securities transactions	34,240,185
Provision for loss on real estate	(935,000)
Gain on sales of real estate	24,516,867
Net earnings	$ 57,822,052

(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE FINANCING METHOD)
DECEMBER 31, 1998

State	Net Investment
Alabama	$ 9,149,460

California	6,457,209
Connecticut	23,178,919
Florida	4,984,556
Georgia	4,985,671
Illinois	4,033,629
Indiana	558,438
Iowa	1,325,808
Kentucky	191,235
Louisiana	17,206,059
Maryland	6,162,704
Massachusetts	7,778,884
Michigan	12,479,456
Minnesota	1,730,587
Missouri	5,040,199
Nevada	812,264
New Hampshire	4,231,871
New Jersey	9,843,381
New York	10,101,418
North Carolina	4,906,783
Ohio	7,839,752
Oklahoma	110,415
Oregon	51,466,698
Pennsylvania	4,459,297
Rhode Island	998,046
South Carolina	54,090
Tennessee	34,306,242
Texas	1,602,994
Virginia	4,949,914
West Virginia	3,108,735
Wisconsin	1,865,041
	$245,919,755

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, 1998

	Amount at which Carried at Close of Year	Reserve for Depreciation
Alabama	$ 11,649,673	$ 1,590,656
California	6,903,164	1,828,245
Connecticut	1,549,805	1,129,605
Florida	14,522,091	6,973,995
Georgia	2,830,301	413,084
Illinois	17,744,837	4,033,068
Indiana	8,635,584	3,829,290
Kansas	460,490	--
Kentucky	41,134,991	1,105,851
Louisiana	6,829,427	1,940,670
Maryland	1,778,277	706,775
Massachusetts	28,999,945	1,883,720
Michigan	9,242,377	1,533,157
Minnesota	6,783,602	1,730,476
Missouri	1,946,471	425,144
New Jersey	2,535,281	1,543,113
New York	23,354,636	5,627,845
North Carolina	157,560	--

Ohio	3,635,082	532,883
Oregon	169,048	--
Pennsylvania	5,442,384	3,597,195
South Carolina	1,613,209	522,346
Tennessee	335,367	225,564
Texas	730,630	--
Virginia	3,933,081	182,578
Wisconsin	9,028,034	88,649
	------------	------------
	$211,945,347	$41,443,909
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