SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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)	(I.R.S. Employer Identification No.)

100 South Bedford Road, Mt. Kisco, NY	10549
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X N

INDEX

PART I. FINANCIAL INFORMATION

Page No.

Consolidated Balance Sheets -
September 30, 1998 and December 31, 1997 ....1 - 2

Consolidated Statements of Earnings -
Three Months Ended September 30, 1998 and 1997...................3

Consolidated Statements of Earnings
Nine Months Ended September 30, 1998 and 1997....................4

Consolidated Statement of Changes In
Partners' Equity - Nine Months
Ended September 30, 1998 5

Consolidated Statements of Cash Flows -
Nine Months Ended September 30, 1998 and 1997....................6-7

Notes to Consolidated Financial Statements......................8

Management's Discussion and Analysis
of Financial Condition and Results of
Operations...14

PART II. OTHER INFORMATION..21

PART I. FINANCIAL INFORMATION

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

CONSOLIDATED BALANCE SHEETS
(In $000's)

	September 30, 1998 (unaudited)	December 31, 1997
ASSETS		
Real estate leased to others:		
Accounted for under the financing method	$ 248,298	$ 265,657
Accounted for under the operating method, net of accumulated depreciation	141,289	121,595
Investment in treasury bills	422,600	372,165
Mortgages and notes receivable	87,444	59,970
Cash and cash equivalents	66,844	129,147
Investment in limited partnerships	51,234	22,970
Hotel and resort operating properties, net of accumulated depreciation	33,031	5,002
Receivables and other assets	21,182	7,838
Marketable equity securities	8,818	-
Property held for sale	4,049	4,164
Debt placement costs, net of accumulated amortization	1,634	1,473
Construction in progress	1,700	1,249
Total	$ 1,088,123	$ 991,230

Continued.....

CONSOLIDATED BALANCE SHEETS - Continued
(In $000's)

	September 30, 1998 (unaudited)	December 31, 1997
LIABILITIES		
Mortgages payable	$ 187,514	$ 156,433
Notes payable	15,319	-
Senior indebtedness	-	11,308
Accounts payable, accrued expenses and other liabilities	19,968	10,929
Deferred income	2,790	2,792
Distributions payable	349	443
Total liabilities	225,940	181,905
Commitments and Contingencies (Notes 2 and 3)		
PARTNERS' EQUITY		
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 Sept.30, 1998 and Dec. 31, 1997	78,685	75,852
Depositary units; 47,850,000 authorized; 47,235,484 outstanding	777,302	728,329
General partner	17,380	16,328
Treasury units at cost: 1,037,200 depositary units	(11,184)	(11,184)
Total partners' equity	862,183	809,325
Total	$ 1,088,123	$ 991,230

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS
(unaudited)

(In $000's except per unit amounts)

	Three Months Ended September 30, 1998	1997
Revenues:		
Interest income on financing leases	$ 5,959	$ 6,604
Interest income on treasury bills and other investments	7,580	2,797
Rental income	4,671	4,247
Hotel and resort operating income	3,901	1,024
Dividend income	4,649	1,243
Other income	284	139
	27,044	16,054
Expenses:		
Interest expense	4,040	3,287
Depreciation and amortization	1,042	1,483
General and administrative expenses	663	744
Property expenses	486	707
Hotel and resort operating expenses	2.562	939
	8,793	7,160
Earnings before property and securities transactions	18,251	8,894
Provision for loss on real estate	-	(343)
Gain on sales and disposition of real estate	2,683	2,364
NET EARNINGS	$ 20,934	$ 10,915
Net earnings attributable to:		
Limited partners	$ 20,517	$ 10,698
General partner	417	217
	$ 20,934	$ 10,915
Net earnings per limited partnership unit (Note 13)		
Basic earnings	$ .42	$ .36
Weighted average limited partnership units outstanding	46,198,284	27,005,660
Diluted earnings	$ .38	$ .36
Weighted average limited partnership units and equivalent partnership units outstanding	54,472,284	29,221,336

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS
(unaudited)
(In $000's except per unit amounts)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Revenues:		
Interest income on financing leases	$ 18,370	$ 18,694
Interest income on treasury bills and other investments	21,956	8,888
Rental income	13,685	12,488
Hotel and resort operating income	6,071	5,106
Dividend income	8,974	3,001
Other income	662	699
	69,718	48,876
Expenses:		
Interest expense	11,224	9,792
Depreciation and amortization	3,449	4,393
General and administrative expenses	2,313	2,216
Property expenses	2,051	2,571
Hotel and resort operating expenses	4,428	4,036
	23,465	23,008
Earnings before property and securities transactions	46,253	25,868
Provision for loss on real estate	(602)	(705)
Gain on sales and disposition of real estate	9,760	13,287
Gain on sale of marketable securities	-	29,188
NET EARNINGS	$ 55,411	$ 67,638
Net earnings attributable to:		
Limited partners	$ 54,308	$ 66,293
General partner	1,103	1,346
	$ 55,411	$ 67,638
Net earnings per limited partnership unit (Note 13):		
Basic earnings	$ 1.11	$ 2.48
Weighted average limited partnership units outstanding	46,198,284	26,117,885
Diluted earnings	$ 1.01	$ 2.35
Weighted average limited partnership units and equivalent partnership units outstanding	53,918,593	28,230,265

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY
Nine Months Ended September 30, 1998
(unaudited)
(In $000's)

	General Partner's Equity	Limited Partners' Depositary Units	Equity Preferred Units	Held in Treasury	Total Partners' Equity
Balance Dec. 31, 1997	$ 16,328	$ 728,329	$ 75,852	$ (11,184)	$ 809,325
Net earnings	1,103	54,308	-	-	55,411
Unrealized losses on securities available for sale	(51)	(2,502)	-	-	(2,553)
Pay-in-kind distribution	-	(2,833)	2,833	-	-
Balance Sept.30, 1998	$ 17,380	$ 777,302	$ 78,685	$ (11,184)	$ 862,183

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(In $000's)

	Nine Months Ended September 30, 1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 55,411	$ 67,639
Adjustments to reconcile earnings to net cash provided by operating activities:		
Depreciation and amortization	3,449	4,393
Amortization of deferred income	(1)	(16)
Gain on sales and disposition of real estate	(9,760)	(13,288)
Gain on sale of marketable securities	-	(29,188)
Provision for loss on real estate	602	705
Changes in:		
Decrease in deferred income	(3)	(3)
(Increase) decrease in receivables and other assets	(15,461)	1,431
Increase (decrease) in accounts payable and accrued expenses	8,941	(3,649)
Net cash provided by operating activities	43,178	28,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in mortgages and notes receivable	(46,290)	(56,083)
Property acquisitions	(42,289)	(43,834)
Purchase of marketable equity securities	(8,818)	-
Net proceeds from the sale and disposition of real estate	22,146	28,138
Principal payments received on leases accounted for under the financing method	5,884	5,690
Construction in progress	(451)	(397)
Principal receipts on mortgages receivable	391	239
Capitalized expenditures for real estate	(495)	(1,378)
Investment in treasury bills	(50,435)	-
Investment in limited partnerships	(28,263)	6,281
Net proceeds from the sale of marketable securities	-	111,784

	1998	1997
Net cash (used in) provided by investing activities	(148,620)	50,440
CASH FLOWS FROM FINANCING ACTIVITIES:		
Partners' equity:		
Proceeds of the Rights Offering	-	272,331
Expenses of the Rights Offerings	-	(267)
Distributions to partners	(94)	(1,056)
Debt:		
Increase (decrease) in mortgages payable	47,682	40,350
Periodic principal payments	(6,731)	(5,752)
Balloon payments	(1,369)	(5,025)
Increase in notes payable	15,319	-
Debt placement costs	(360)	(43)
Senior debt principal payment	(11,308)	(11,308)
Net cash provided by financing activities	43,139	289,230
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(62,303)	367,694
CASH AND CASH EQUIVALENTS, beginning of period	129,147	105,544
CASH AND CASH EQUIVALENTS, end of period	$ 66,844	$ 473,238

Continued...............

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(In $000's)

	Nine Months Ended September 30,	
	1998	1997
SUPPLEMENTAL INFORMATION:		
Cash payments for interest	$ 11,346	$ 9,903
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Reclassification of real estate:		
To property held for sale	$ 1,271	$ 2,496
From mortgages and notes receivable	(15,872)	
To operating lease	15,872	4,001
From operating lease	(1,271)	(2,496)
From financing lease	-	(4,001)
	$ -	$ -

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. General

The accompanying consolidated financial statements and related footnotes should be read in conjunction with the consolidated financial statements and related footnotes contained in the Company's annual report on Form 10-K for the year ended December 31, 1997.

The results of operations for the three and nine months ended September 30, 1998 are not necessarily indicative of the results to be expected for the full year.

2. Conflicts of Interest and Transactions with Related Parties

a. The Company entered into a license agreement with an affiliate of the general partner for a portion of office space at an annual rental of approximately $205,000, plus its share of certain additional rent. Such agreement was approved by the Audit Committee of the Board of Directors of the General Partner ("The Audit Committee"). For the three and nine months ended September 30, 1998, the Company paid rent of approximately $59,000 and $163,000 respectively, in accordance with the agreement.

b. The Company entered into a lease, expiring in 2001, for 7,920 square feet of office space, at an annual rental of approximately $153,000. The Company has sublet to certain affiliates 3,205 square feet at an annual rental of approximately $62,000, resulting in a net annual rental of approximately $91,000. During the three and nine months ended September 30, 1998, the affiliates paid the Company approximately $15,000 and $45,000, respectively for rent of the sublet space. Such payments have been approved by the Audit Committee.

c. As of November 3, 1998, High Coast Limited Partnership, an affiliate of Carl C. Icahn, the Chairman of the Board of the General Partner, owns 6,642,065 Preferred Units and 31,515,044 Depositary Units.

3. Commitments and Contingencies

On June 24, 1998, the Grand Union Company ("Grand Union"), a tenant leasing five properties owned by the Company, filed a prepackaged voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The Company was informed on August 5, 1998 that the U.S. Bankruptcy Court approved Grand Union's reorganization plan. 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. The tenant is current in its obligations under the leases.

At September 30, 1998, the carrying value of these five properties is approximately $10,128,000. One of these properties is encumbered by a nonrecourse mortgage payable of approximately $4,378,000.

4. Hotel and Resort Properties

In 1997, the Company 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 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 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 "Hotel and resort properties" on the Consolidated Balance Sheet. Resort operations for the period August 1 to September 30, 1998 have been included in the "Hotel and resort operating income and expenses" in the Consolidated Statements of Earnings. Resort operations are highly seasonal in nature with peak activity occurring from June to September.

5. Mortgages and Notes Receivable

a. In June, 1997 the Company 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 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 that 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 interests (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.

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.

b. In January 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 $17.5 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 $14.3 million. In August 1998, the Company invested $425,000 to purchase $500,000 face value of additional Notes. In October 1998, the Company invested $422,500 to purchase $650,000 face value of additional notes. 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.

c. 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. 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.

d. The Company 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 Balance Sheet. At September 30, 1998 unrealized holding losses of $2.5 million are reflected in Partners Equity.

6. Marketable Equity Securities

In September 1998, the Company purchased 350,000 shares of RJR Nabisco Holdings

Corp (RJR) for approximately $8,818,000.

In October 1998, the Company purchased 2,321,700 additional shares of RJR for approximately $59.3 million. An affiliate of the general partner also holds shares of RJR.

7. Investment in Limited Partnership Units

a. On July 17, 1996, the Company's subsidiary, American Real Estate Holdings Limited Partnership ("AREH") and an affiliate of the General Partner, Bayswater Realty and Capital Corp. ("Bayswater") became partners of Boreas Partners, L.P., ("Boreas"), a Delaware limited partnership. AREH's total interests are 70%. Boreas together with unaffiliated third parties entered into an agreement and became limited partners of Raleigh Capital Associates, L.P. ("Raleigh") for the purpose of making tender offers for outstanding limited partnership and assignee interests ("Units") of Arvida/JMB Partners,

L.P. ("Arvida") a real estate partnership. Boreas and the affiliated general partner had a total interest in Raleigh of 33 1/3%.

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.

As of September 30, 1998, Boreas and Raleigh have been consolidated in the company's financial statements. As a result, the Company's investment in approximately 106,000 Arvida units is approximately $41.2 million. In addition, notes payable of approximately $15.2 million have been recorded and approximately $4,149,000 representing Bayswater's minority interest has been included in "Accounts payable, accrued expenses, and other liabilities." Included in the Consolidated Statements of Earnings for the three and nine months ended September 30, 1998 is approximately $128,000 and $594,000 of "Interest expense", respectively. (See Note 16).

b. 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 30,864 units of HEP 85; 32,160 units of HEP 86; and 14,695 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.

8. Property Held For Sale

At September 30, 1998, the Company owned eight properties that were being actively marketed for sale. At September 30, 1998, these properties have been stated at the lower of their carrying value or net realizable value. The aggregate value of these properties at September 30, 1998, after incurring a provision for loss on real estate in the amount of $602,000, is estimated to be approximately $4,049,000.

9. Significant Property Transactions

a. 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 nine months ended September 30, 1998.

b. On May 21, 1998, the Company sold a property located in Atlanta, Georgia tenanted by AT & T Corp. for a selling price of $8,600,000. As a result, the Company recognized a gain of approximately $1,266,000 in the nine months ended September 30, 1998.

c. In accordance with a previously executed option agreement, the Company sold a property located in Broomal, Pennsylvania to its tenant Federal Realty Investment Trust. The consideration received by the

Company 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 three and nine months ended September 30, 1998.

d. 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 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 at increased rentals. See note 10b for details on the mortgage.

e. 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.

10. Mortgages Payable

a. 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. 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.

b. 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.

11. Distributions Payable

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

12. Preferred Units

Pursuant to the terms of the Preferred Units, on February 27, 1998, the Company declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10. The distribution was payable March 31, 1998 to holders of record as of March 13, 1998. A total of 365,553 additional Preferred Units were issued. As of September 30, 1998, 7,676,607 Preferred Units are issued and outstanding.

13. Earnings Per Share

For the three and nine months ended September 30, 1998 and 1997, basic and diluted earnings per weighted average limited partnership unit are detailed as follows:

	Three Months Ended		Nine Months Ended	
	9/30/98	9/30/97	9/30/98	9/30/97
Basic:				
Earnings before property and securities transactions	$ .37	$ .29	$ .92	$ .91
Net gain from property and securities transactions	.05	.07	.19	1.57
Net earnings	$ .42	$ .36	$ 1.11	$ 2.48

Diluted:				
Earnings before property and securities transactions	$ .33	$ .29	$ .84	$ .90
Net gain from property and securities transactions	.05	.07	.17	1.45
Net earnings	$ .38	$ .36	$ 1.01	$ 2.35

14. 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 three months ended September 30, 1998 and 1997 is as follows (in thousands):

	1998	1997
Net income	$ 20,934	$ 10,915
Unrealized losses on securities available for sale	(2,553)	-
Comprehensive income	$ 18,381	$ 10,915

Comprehensive income for the nine months ended September 30, 1998 and 1997 is as follows (in thousands):

	1998	1997
Net income	$ 55,411	$ 67,638
Unrealized losses on securities available for sale	(2,553)	-
Realized gains previously reported in partner's equity	-	(23,548)
Comprehensive income	$ 52,858	$ 44,090

15. New Accounting Pronouncements

In June 1997, FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The requirements for SFAS No. 131 are effective for financial statements for periods ending after December 15, 1997

but need not be applied to interim financial statements in the initial year of its application. The Company is currently evaluating the new disclosure requirement of SFAS No. 131.

16. Subsequent Event

a. In October 1998 the Company purchased approximately $25.3 million of Senior Debt of Philip Services Corp. for approximately $14.7 million. Philip Services Corp. is a Canadian based company in the waste recovery business and its common shares are listed on the New York Stock Exchange.

b. In October 1998, the Company repurchased 100,000 of its Depositary Units for $737,500. The Company was previously authorized to purchase up to 1,250,000 Depositary Units. As of October 1998, the Company has purchased 1,137,200 Depositary Units at an aggregate cost of approximately $11,921,000.

c. In November, 1998, Raleigh Capital Associates L.P. ("Raleigh"), which is 70% owned by the Company, 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/JMB Partners L.P. ("Arvida") (See Note 7). The Buy/ Sell Agreement is subject to the satisfaction of certain conditions. In connection with the Buy/Sell Agreement, St. Joe and JMB Managers delivered a notice to Raleigh in which St. Joe offered to acquire all the limited partnership interests in Arvida owned by Raleigh (approximately 106,000 units).

Raleigh has twenty business days to determine whether it will sell to St. Joe or purchase the general partnership interests in Arvida owned by JMB Managers. If Raleigh elects to purchase the general partnership interests, it will also make a tender offer to acquire all the remaining limited partnership interests in Arvida (approximately 297,000 units).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 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 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

The Company believes that it will benefit from diversification of its portfolio of assets. To further its investment objectives, the Company 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 the Company 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 the Company. Additionally, in selecting future real estate investments, the Company 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, the Company 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. The Company 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 more competitive to source and the increased competition may have some impact on the spreads and the ability to find quality assets that provide returns that are sought. These investments may not be readily financeable and may not generate immediate positive cash flow for the Company. As such, they require the Company to maintain a strong capital base in order to react quickly to these market opportunities as well as to allow the Company 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 the Company will increase in value or generate positive cash flow, the Company 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 the Company's real estate assets have been net leased to single corporate tenants under long-term leases. With certain exceptions, these tenants are required to pay all expenses relating to the leased property and therefore the Company is not typically responsible for payment of expenses, such as maintenance, utilities, taxes and insurance associated with such properties.

By the end of the year 2000, net leases representing approximately 15% of the Company's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net leases representing approximately 28% of the Company's net annual rentals will be due for renewal. Since most of the Company's properties are net-leased to single, corporate tenants, it may be difficult and time-consuming to re-lease or sell those properties that existing tenants decline to re-let or purchase and the Company may be required to incur expenditures to renovate such properties for new tenants. In addition, the Company may become responsible for the payment of certain operating expenses, including maintenance, utilities, taxes, insurance and environmental compliance costs associated with such properties, which are presently the responsibility of the tenant. As a result, the Company could experience an adverse impact on net cash flow in the future from such properties.

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

In September 1997, the Company completed its Rights Offering (the "1997 Offering") to holders of its Depositary Units 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. 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 the Company. Management believes that substantially all such costs would be the responsibility of the tenants pursuant to lease terms. While most tenants have assumed responsibility for the environmental conditions existing on their leased property, there can be no assurance that the Company will not be deemed to be a responsible party or that the tenant will bear the costs of remediation. Also, as the Company acquires more operating properties, its exposure to environmental clean-up costs may increase. The Company completed Phase I Environmental Site Assessments 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.

The Company has notified each of the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed. If such tenants do not arrange for further investigations, or remediations, if required, the Company may determine to undertake the same at its own cost. If the tenants fail to perform responsibilities under their leases referred to above, based solely upon the consultant's estimates resulting from its Phase I Environmental Site Assessments referred to above, it is presently estimated that the Company's exposure could amount to $2-3 million, however, as no Phase II Environmental Site Assessments have been conducted by the consultants, there

can be no accurate estimation of the need for or extent of any required remediation, or the costs thereof. In addition, the Company has notified all tenants of the Resource Conservation and Recovery Act's ("RCRA") December 22, 1998 requirements for regulated Underground Storage Tanks. The Company may, at its own cost, have to cause compliance with this RCRA requirement 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 the Company may deem necessary and appropriate.

The Company is considering the potential impact of the year 2000 in the processing of date-sensitive information by the Company'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 the Company'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. Based on current information, costs of addressing potential problems are not expected to have a material adverse impact on the Company's financial position, results of operations or cash flows in future periods. However, if the Company, its tenants or vendors are unable to resolve such processing issues in a timely manner, it could result in a material financial risk. Accordingly, the Company will devote the necessary resources to resolve all significant year 2000 issues in a timely manner.

Results of Operations

Three Months Ended September 30, 1998 Compared to Three Months Ended September 30, 1997 Gross revenues increased by $10,990,000, or 68.5%, during the three months ended September 30, 1998 as compared to the same period in 1997. This increase reflects increases of $4,783,000 in interest income on treasury bills and other investments, $3,406,000 in dividend income, $2,877,000 in hotel and resort operating income, $424,000 in rental income and $145,000 in other income, partially offset by a decrease of $645,000 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 Offering. The increase in dividend income is attributable to the Company's investment in limited partnership units. The increase in hotel and resort operating income is primarily attributable to the acquisition of New Seabury which began operations August 1, 1998. The increase in rental income is primarily due to property acquisitions.

Expenses increased by $1,633,000, or 22.8%, during the three months ended September 30, 1998 compared to the same period in 1997. This increase reflects increases of $1,623,000 in hotel and

resort operating expenses and $753,000 in interest expense partially offset by decreases of $441,000 in depreciation and amortization, $221,000 in property expenses and $81,000 in general and administrative expenses. The increase in hotel and resort operating expenses is primarily attributable to the acquisition of New Seabury as mentioned above. The increase in interest expense is primarily attributable to financings related to recent property acquisitions.

Earnings before property and securities transactions increased during the three months ended September 30, 1998 by $9,357,000 as compared to the same period in 1997, primarily due to increased interest income on treasury bills and other investments, increased dividend income and increased net hotel and resort operations.

Gain on property transactions increased by $319,000 during the three months ended September 30, 1998 as compared to the same period in 1997, due to differences in the size and number of transactions.

During the three months ended September 30, 1998, the Company did not record a provision for loss on real estate as compared to $343,000 in the same period in 1997.

Net earnings for the three months ended September 30, 1998 increased by $10,019,000 as compared to the three months ended September 30, 1997 primarily due to increased earnings before property and securities transactions as mentioned above.

Diluted earnings per weighted average limited partnership unit outstanding before property and securities transactions were $.33 in the three months ended September 30, 1998 compared to $.29 in

the comparable period of 1997, and net gain from property and securities transactions was $.05 in the three months ended September 30, 1998 compared to $.07 in the comparable period of 1997. Diluted net earnings per weighted average limited partnership unit outstanding totalled $.38 in the three months ended September 30, 1998 compared to $.36 in the comparable period of 1997.

Nine Months Ended September 30, 1998 Compared to Nine Months Ended September 30, 1997 Gross revenues increased by $20,842,000, or 42,6%, during the nine months ended September 30, 1998 as compared to the same period in 1997. This increase reflects increases of $13,068,000 in interest income on treasury bills and other investments, $5,973,000 in dividend income, $1,197,000 in rental income and $965,000 in hotel and resort operating income partially offset by decreases of $324,000 in financing lease income, and $37,000 in other 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 Offering. The increase in dividend income is attributable to the Company's investment in limited partnership units. The increase in rental income is primarily due to property acquisitions. 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 $457,000, or 2.0%, during the nine months ended September 30, 1998 compared to the same period in 1997. This increase reflects increases of $1,432,000 in interest expense, $392,000 in hotel and resort operating expenses and $97,000 in general and administrative expenses partially offset by decreases of $944,000 in depreciation and amortization and $520,000 in property expenses. The increase in interest expense is primarily attributable to financings related to recent property acquisitions. The increase in hotel operating expenses is primarily attributable to the

acquisition of New Seabury 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 nine months ended September 30, 1998 by $20,385,000 as compared to the same period in 1997, primarily due to increased interest income on treasury bills and other investments, increased dividend income and increased net hotel and resort operations.

Gain on property transactions decreased by $3,527,000 during the nine months ended September 30, 1998 as compared to the same period in 1997, due to differences in the size and number of transactions.

During the nine months ended September 30, 1998, the Company recorded a provision for loss on real estate of $602,000 as compared to $705,000 during the same period in 1997.

During the nine months ended September 30, 1997, the Company 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.

Net earnings for the nine months ended September 30, 1998 decreased by $12,227,000 as compared to the nine months ended September 30, 1997 primarily due to the non-recurring gain on the sale of the RJR stock in 1997 and decreased gain on sales of real estate partially offset by increased earnings before property and securities transactions as mentioned above.

Diluted earnings per weighted average limited partnership unit outstanding before property and securities transactions were $.84 in the nine months ended September 30, 1998 compared to $.90 in the comparable period of 1997, and net

gain from property and securities transactions was $.17 in the nine months ended September 30, 1998 compared to $1.45 in the comparable period of 1997. Diluted net earnings per weighted average limited partnership unit outstanding totalled $1.01 in the nine months ended September 30, 1998 compared to $2.35 in the comparable period of 1997.

Capital Resources and Liquidity

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

The Company believes it may not be able to re-let certain of its properties at current rentals. As previously discussed, net leases representing approximately 28% of the Company's net annual rentals will be due for renewal by the end of the year 2002. In 1998, 25 leases covering 25 properties and representing approximately $2,123,000 in annual rentals are scheduled to expire. Fourteen of these leases originally representing approximately $543,000 in annual rental income have been or will be re-let or renewed for approximately $565,000 in annual rentals. Such renewals are generally for a term of five years. Seven properties, with an approximate annual rental income of $765,000, will be marketed for sale or

lease when the current lease term expires. Three properties with annual rental income of $138,000 were purchased by their tenants pursuant to the exercise of purchase options. One property with an annual rental income of $677,000 was sold.

The Board of Directors of the General Partner announced that no distributions on its Depositary Units are expected to be made in 1998. In making its announcement, the Company noted it plans to continue to apply available operating cash flow toward its operations, repayment of maturing indebtedness, tenant requirements and other capital expenditures and creation of cash reserves for contingencies including environmental matters and scheduled lease expirations.

During the nine months ended September 30, 1998, the Company generated approximately $35.9 million in cash flow from day-to-day operations which excludes approximately $9.1 million in interest earned on the 1997 Offering proceeds which is being retained for future acquisitions.

Capital expenditures for real estate were approximately $495,000 during the nine months ended September 30, 1998.

In 1998, the Company had the final $11.3 million principal payment due on its Senior Unsecured Debt and has approximately $4.9 million and $5.4 million of maturing balloon mortgages due in 1998 and 1999, respectively. During the nine months ended September 30, 1998, approximately $12.7 million of maturing debt obligations, including the final $11.3 million payment on the Senior Unsecured Debt were repaid out of the Company's cash flow. The Company may seek to refinance a portion of these maturing mortgages, although it does not expect to refinance all of them, and may repay them from

cash flow and increase reserves from time to time, thereby reducing cash flow otherwise available for other uses.

During the nine months ended September 30, 1998, net cash flow after payment of maturing debt obligations and capital expenditures was approximately $22.7 million which was added to the Company's operating cash reserves. The Company's operating cash reserves are approximately $65.7 million at September 30, 1998 (not including the cash from capital transactions or from the 1997 Offering which is being retained for investment), which are being retained to meet maturing debt obligations, capitalized expenditures for real estate and certain contingencies facing the Company. The Company from time to time may increase its cash reserves to meet its maturing debt obligations, tenant requirements and other capital expenditures and to provide for scheduled lease expirations and other contingencies including environmental matters.

Sales proceeds from the sale or disposal of portfolio properties totaled approximately $22.2 million in the nine months ended September 30, 1998. The Company intends to use asset sales, financing and refinancing proceeds for new investments.

The Amendment permits the Company to invest a portion of its funds in securities of issuers that are not primarily engaged in real estate. Recently, the Company obtained an investment in Stratosphere. In addition, an affiliate of the General Partner acquired an investment in Stratosphere (see Note 5). The Company

understands that Stratosphere may seek approximately $100 million for expansion of its hotel facility, a substantial portion of which may be provided by the Company and the affiliate of the General Partner. In order to facilitate the Stratosphere reorganization, the Company received $60.7 million for its interest. The Company expects that it will obtain the appropriate licenses and repurchase such Stratosphere interest upon such approval.

The Company also recently invested approximately $68.1 million in the common stock of RJR Nabisco Holdings Corp., $15.1 million for interests in the Sands, $14.1 million for interests in the Claridge Hotel and $14.7 million in the debt of Philip Services Corp. and is investigating possible tender offers for real estate operating companies and real estate limited partnership units.

To further its investment objectives, the Company 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. 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, the Company raised approximately $267 million 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.

Part II. Other information

Item 6. Exhibits and Reports on Form 8-K

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

EXHIBIT INDEX

Exhibit	Description
EX-27	Financial Data Schedule

(b) None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

American Real Estate Partners, L.P.
By: American Property Investors, Inc.
General Partner

/s/ John P. Saldarelli
John P. Saldarelli
Treasurer
(Principal Financial Officer
and Principal Accounting Officer)

```
<ARTICLE> 5
<CIK> 0000813762
<NAME> AMERICAN REAL ESTATE PARTNERS, L.P.
<MULTIPLIER> 1000


<PERIOD-TYPE>                   9-MOS
<FISCAL-YEAR-END>                          DEC-31-1998
<PERIOD-END>                               SEP-30-1998
<CASH>                                          66,844
<SECURITIES>                                   431,418
<RECEIVABLES>                                        0
<ALLOWANCES>                                         0
<INVENTORY>                                          0
<CURRENT-ASSETS>                                     0
<PP&E>                                         463,283
<DEPRECIATION>                                  40,665
<TOTAL-ASSETS>                               1,088,123
<CURRENT-LIABILITIES>                                0
<BONDS>                                        202,833
<PREFERRED-MANDATORY>                                0
<PREFERRED>                                          0
<COMMON>                                             0
<OTHER-SE>                                     862,183
<TOTAL-LIABILITY-AND-EQUITY>                 1,088,123
<SALES>                                              0
<TOTAL-REVENUES>                                69,718
<CGS>                                                0
<TOTAL-COSTS>                                    9,928
<OTHER-EXPENSES>                                 2,313
<LOSS-PROVISION>                                     0
<INTEREST-EXPENSE>                              11,224
<INCOME-PRETAX>                                 55,411
<INCOME-TAX>                                         0
<INCOME-CONTINUING>                             55,411
<DISCONTINUED>                                       0
<EXTRAORDINARY>                                      0
<CHANGES>                                            0
<NET-INCOME>                                    55,411
<EPS-PRIMARY>                                     1.11
<EPS-DILUTED>                                     1.01
```