FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000950134-99-001996

FILER

S/M REAL ESTATE FUND VII LTD/TX	Mailing Address	Business Address
CIK:**709296**| IRS No.: **751845682** | State of Incorp.:**TX** | Fiscal Year End: **1231**	*5520 LBJ FREEWAY*	*5520 LBJ FWY STE 500*
Type: **10-K405** | Act: **34** | File No.: **000-11779** | Film No.: **99573580**	*SUITE 300*	*DALLAS TX 75240*
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[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

Commission file number: 0-11779

S/M REAL ESTATE FUND VII, LTD.
(FORMERLY SHEARSON-MURRAY REAL ESTATE FUND VII, LTD.)

Exact name of registrant as specified in its charter

Texas	75-1845682
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

5520 LBJ Freeway, Suite 500, Dallas, Texas	75240
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (972) 404-7100

Securities registered pursuant to Section 12(b) of the Act: None

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

LIMITED PARTNERSHIP INTERESTS

(Title of Class)

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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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 the 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]

State aggregate market value of the voting stock held by non-affiliates of the registrant: Not applicable

Documents Incorporated by Reference: Prospectus dated June 10, 1983, contained in Amendment No. 3 to Registrant's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 10, 1983. (Parts I, II, III & IV).

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PART I

ITEM 1. BUSINESS

S/M Real Estate Fund VII, Ltd. (the "Partnership"), formerly Shearson-Murray Real Estate Fund VII, Ltd., was formed November 4, 1982 to acquire existing garden apartment complexes. The general partners of the Partnership are SM7 Apartment Investors Inc., a Texas corporation ("SM7"), (formerly Shearson Apartment Investors XIV, Inc.), Murray Realty Investors VII, Inc., a Texas corporation ("Murray"), and Crozier Partners VII, Ltd., a Texas limited partnership ("Crozier"). SM7, Murray and Crozier are hereinafter referred to collectively as the "General Partners." See Item 10. "Directors and Executive Officers of the Registrant."

The Partnership offered, on June 10, 1983, a minimum of 6,250 and a maximum of 14,000 limited partnership interests (the "Interests") in the Partnership at $1,000 per Interest with a minimum required purchase of two Interests for purchases made on behalf of Individual Retirement Accounts and five Interests for all other purchasers. Additionally, the General Partners were given the right to sell an additional 10,000 Interests in connection with the offering. The offering of Interests was terminated on April 30, 1984, and the Partnership accepted subscriptions for 11,080 Interests, for aggregate offering proceeds of $11,080,000.

On July 29, 1983, the Partnership acquired Fifth Avenue Apartments ("Fifth Avenue"), a 198-unit apartment complex located in San Antonio, Texas, for a purchase price of $8,474,925. On August 31, 1983, the Partnership acquired Rockcreek Apartments ("Rockcreek"), a 314-unit apartment complex located in Austin, Texas, for a purchase price of $10,948,228. The two properties are referred to collectively herein as the "Properties."

The San Antonio and Austin apartment markets deteriorated in the mid-1980s due to overbuilding and the general economic decline of the Southwest economy. Rental concessions and a decline in the Properties' operating results led to the depletion of the Partnership's working capital reserve. In July 1986, the General Partners suspended mortgage payments on the Partnership's two Properties and commenced negotiations with the lenders in an effort to restructure the terms of their respective mortgage loan agreements. Subsequently, in November 1986 and March 1987, the Partnership executed letters of intent with the holders of the Rockcreek and Fifth Avenue notes, respectively to modify certain conditions and terms of the mortgage obligations. The Partnership resumed payments in March 1987 in accordance with the proposed modifications.

Adverse market conditions continued to hamper the ability of the Properties to generate sufficient cash flow to meet debt service payments and operating expenses. Given the diminishing balance of the Partnership's cash and the capital improvement requirements at Rockcreek, in April 1989, the General Partners commenced renegotiations and suspended debt service payments on the mortgages secured by both Rockcreek and Fifth Avenue. The objective of these negotiations was to reduce the debt service payments required under the mortgage notes to a level that could be paid out of cash flow generated by the Properties. Under the terms of these loan agreements, non-payment of debt service represented an event of default.

In May 1989, two of the lenders for Rockcreek posted that property for foreclosure on June 7, 1989. As the Partnership was unable to reach an agreement with one of these lenders to forbear prior to foreclosure date, the Partnership commenced a voluntary case under Chapter 11 of the Federal Bankruptcy Code on June 6, 1989, in an attempt to protect its Limited Partners from the effects of foreclosure and to reorganize the Partnership's finances.

On October 4, 1989, the Partnership filed a plan of reorganization ("The Plan") together with a disclosure statement with the Bankruptcy Court. The Plan was not approved, and the Partnership filed its modified plan of reorganization (the "Modified Plan") and disclosure statement, which was confirmed on February 20, 1990, and became effective on March 1, 1990. The Modified Plan restructured the liabilities of the Partnership in a manner which was intended to permit such liabilities to be serviced by the Partnership's anticipated cash flow. Additionally, the Modified Plan required the Partnership to issue reorganization notes to holders of mortgage notes payable.

The first mortgage note secured by Phase I of the Rockcreek Apartments and the wraparound mortgage note secured by a third mortgage on Rockcreek were scheduled to mature on December 31, 1993. The General Partners had attempted to either restructure the debt or sell the property (both Phases I and II) for an amount greater than the outstanding debt. As a result of the General Partners' efforts to sell the property, the General Partners secured an offer to purchase the property in the amount of $8,521,055. Such offer was accepted and the property was sold on December 17, 1993. Concurrently with their sales efforts, the General Partners successfully negotiated an agreement with the holder of the wraparound mortgage on Rockcreek, whereby the Partnership received a release of all the mortgage liens on the property by paying a discounted amount of the total outstanding debt of $8,082,311.

The General Partners commenced discussions in 1995 with the lender of the mortgage secured by Fifth Avenue as a result of the scheduled debt maturity on December 31, 1995. Such discussions continued past the December 31, 1995 maturity date, and on May 30, 1996, the General Partners of the Partnership executed a modification and extension agreement (the "Modification Agreement") with the lender, to modify the mortgage and extend its maturity for five years. See more details of the Modification Agreement in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6 "Mortgage Notes Payable" of the Notes to the Financial Statements contained herein.

In order to improve the financial condition of the Partnership and provide much needed funds for exterior improvements on Fifth Avenue, on December 3, 1998, the General Partners of the Partnership refinanced the mortgage note payable on Fifth Avenue. In accordance with the terms of the Loan Agreement (the "Agreement"), the principal balance of the original mortgage totaling $6,400,000 is due January 1, 2009 and bears interest at a rate of 7.16%. The previous first and second mortgages had a combined balance of $6,259,810 at an average interest rate of 8.97%. See more details of the Agreement in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6 "Mortgage Notes Payable" of the Notes to the Financial Statements contained herein.

Competition

Fifth Avenue competes for tenants with other apartment complexes in San Antonio. When evaluating a particular location to lease, a tenant may consider many factors, including, but not limited to, space availability, rental rates, lease terms, access, parking, quality of construction and quality of management. While the General Partners believe that Fifth Avenue is generally competitive in these factors, there can be no assurance that, in the view of a prospective tenant, other properties may not be more attractive.

Fifth Avenue directly competes with the following five apartment complexes:

<TABLE>
<CAPTION>

Property	Number of Units*	Percent Occupied at December 15, 1998*
1	185	97%
2	265	91%
3	248	99%
4	253	93%
5	300	93%

</TABLE>

* This information has been obtained from sources believed to be reliable by the Partnership, but the Partnership has not verified the accuracy of such information.

Employees

The Partnership has no employees. Fifth Avenue is managed by Anterra Management Corporation which provides certain administrative and management services. See Item 13. "Certain Relationships and Related Transactions."

ITEM 2. PROPERTIES

As of December 31, 1998, the Partnership owned Fifth Avenue Apartments, a 198-unit apartment complex located in San Antonio, Texas and situated on approximately 8.45 acres with 169,270 square feet of net leaseable space. Occupancy at Fifth Avenue Apartments averaged 96% and 95% for the years ended December 31, 1998 and 1997, respectively. At December 31, 1998 and 1997, Fifth Avenue Apartments was 93% and 95% occupied, respectively.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the General Partners or the Partnership is a party or to which Fifth Avenue is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report through solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE PARTNERSHIP'S LIMITED PARTNERSHIP INTERESTS AND RELATED SECURITY HOLDER MATTERS

A public market for Interests does not exist and is not likely to develop. Consequently, a Limited Partner may not be able to liquidate its investment in the event of emergency or for any other reason, and Interests may not be readily accepted as collateral for a loan. Furthermore, the transfer of Interests is subject to certain limitations, including approval of the General Partners. At December 31, 1998, there were 1,053 Limited Partners of record, owning an aggregate of 11,080 Interests.

There have been no cash distributions to the Limited Partners since inception of the Partnership.

ITEM 6. SELECTED FINANCIAL DATA
(dollars in thousands except per interest data)

<TABLE>
<CAPTION>

For the years ended December 31,(1)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Income	$ 1,361	$ 1,327	$ 1,341	$ 1,358	$ 1,361
Loss Before Extraordinary Item	(496)	(417)	(365)	(270)	(262)

Net Loss	(429)	(417)	(139)	(270)	(262)
Net Loss per Limited Partnership Interest (2)	(38.31)	(37.28)	(12.43)	(24.12)	(23.45)
Total Assets at Year-End	3,585	3,942	4,329	5,213	5,543
Total Mortgage Notes Payable at Year-End	6,400	6,198	6,250	6,381	6,381

</TABLE>

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(1) Results for the five years ended December 31, 1998 solely reflect operations of Fifth Avenue as Rockcreek was sold in December 1993.

(2) Based on the Units outstanding at the end of such period and net income or loss allocated to the Limited Partners.

The above selected financial data should be read in conjunction with the Financial Statements and related notes incorporated by reference to Item 8 of this report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

In order to improve the financial condition of the Partnership and provide much needed funds for exterior improvements on Fifth Avenue, on December 3, 1998, the Partnership refinanced the mortgage note payable on Fifth Avenue, (the "Refinancing"). In accordance with the terms of the Loan Agreement (the "Loan Agreement"), the principal balance of the original mortgage totaling $6,400,000 is due January 1, 2009 and bears interest at a rate of 7.16% (the "New First Mortgage"). The previous first and second mortgage (the "Previous Mortgage") had a combined balance of $6,259,810 at an average interest rate of 8.97%. In spite of having a slightly higher principal loan amount, the Partnership reduced the total debt service payments in 1999 from $689,572 to $519,231, a reduction of $170,341. As a part of the refinancing, the previous lender forgave $181,142 of debt, resulting in a gain on debt restructuring of $67,638, and required the Partnership to pay a $139,223 prepayment penalty.

Under the terms of the New First Mortgage with General Electric Capital Corporation (the "Lender"), the Partnership is required to make fixed monthly payments of principal and interest in the amount of $43,269 commencing on February 1, 1999 until maturity on January 1, 2009, at which time the entire outstanding principal balance and accrued interest is due. Under the terms of the Loan Agreement, the Partnership was required to deposit with the Lender the amount of $114,375 which shall be held by Lender pending application, for the completion of certain required repairs to Fifth Avenue.

The Previous Mortgage was subject to terms of a modification and extension agreement (the "Modification Agreement") executed on May 30, 1996 with Federal National Mortgage Association (the "Previous Lender"). At the time the Modification Agreement was executed, the previous first mortgage had an aggregate balance of $7,111,142, representing $5,830,000 in original principal and $1,281,142 in accrued interest. In accordance with the terms of the Modification Agreement, the previous first mortgage of $5,830,000 had an interest rate of 9.875% with fixed monthly payments of principal and interest in the amount of $52,464 and the previous first mortgage's maturity date was June

1, 2001 (the "Previous First Mortgage").

The accrued interest on the first mortgage in the amount of $1,281,142 was converted into a previous second mortgage which was coterminous with the Previous First Mortgage (the "Previous Second Mortgage"). Upon execution of the Modification Agreement, the Partnership made a $300,000 payment to the Lender, at which time the Lender reduced the Previous Second Mortgage balance to $681,142. The Previous Second Mortgage was non-interest bearing and scheduled to be fully amortized over the five-year term and pre-payable at any time. Under the terms of the Previous Second Mortgage, payments of principal, in monthly installments of $3,333 were due commencing on July 1, 1996, and continuing through June 1, 1998, $5,000 per month beginning July 1, 1998 and continuing through June 1, 2000, and $8,333 per month beginning July 1, 2000 and continuing until maturity on June 1, 2001. The sum of the total minimum monthly payments over the term of the Previous Second Mortgage was $300,000. Pursuant to the Modification Agreement, if $500,000 in principal payments had been received unconditionally and irrevocably by the Lender, the Previous Second Mortgage's remaining unpaid principal in the amount $181,142 would be forgiven by the Lender.

Cash and cash equivalents totaled $274,735 at December 31, 1998, compared to $209,924 at December 31, 1997. The $64,811 increase is primarily attributable to cash provided from Refinancing activities.

Cash held in escrow decreased to $35,987 at December 31, 1998, from $201,966 at December 31, 1997. The $165,979 decrease is primarily attributable to the timing of payments for real estate taxes from the escrow account.

Restricted cash replacement reserve increased to $114,375 at December 31, 1998, from $88,004 at December 31, 1997. The $26,371 increase is attributable to contributions to the replacement reserve in accordance with the terms of the Loan Agreement.

Other assets increased to $72,108 at December 31, 1998, from $13,928 at December 31, 1997. The increase is attributable to an increase in capitalized loan costs associated with the Refinancing in December 1998 which are being amortized over the life of the New First Mortgage.

Accounts receivable totaled $6,311 at December 31, 1998, compared to $1,987 at December 31, 1997. The increase is primarily attributable to the timing of tenant rental receipts. Accounts payable totaled $73,444 at December 31, 1998, compared to $46,478 at December 31, 1997. The increase is primarily attributable to the timing of payments associated with repairs and maintenance for apartment preparation, and property management fees.

Accrued expenses and other liabilities totaled $52,796 at December 31, 1998, compared to $210,422 at December 31, 1997. The change is primarily attributable to the timing of payments for real estate taxes.

As a result of the recent Refinancing and anticipated reductions in general and administrative expenses, the General Partners currently expect funds from operations to pay all obligations for 1999, including debt service. In the event of any cash flow deficits, it is expected that such deficits will be funded by the Partnership's existing cash balances. However, there can be no assurance that the Partnership will have sufficient cash to fund such deficits.

Results of Operations

1998 Compared With 1997

Operations resulted in net losses of $428,725 for the year ended December 31, 1998, and $417,257 for the year ended December 31, 1997. Operations before extraordinary items resulted in net losses of $496,363 for the year ended December 31, 1998, and $417,257 for the year ended December 31, 1997. The increased net loss before extraordinary items from 1997 to 1998 is primarily attributable to an increase in interest expense due to the prepayment penalty associated with the Refinancing offset in part with a decrease in general and administrative expenses. The extraordinary item for the 1998 period is attributable to the Partnership realizing an extraordinary gain of $67,638 as a result of the Refinancing completed in December 1998.

Rental income at Fifth Avenue totaled $1,351,810 for the year ended December 31, 1998, compared to $1,310,235 for the year ended December 31, 1997. Occupancy at Fifth Avenue averaged approximately 96% during 1998 and 95% during 1997. The average rental income per occupied square foot at Fifth Avenue was $8.39 in 1998, compared to $8.20 in 1997. At December 31, 1998, Fifth Avenue was 93% occupied.

Interest and other income totaled $8,718 for the year ended December 31, 1998 compared to $16,888 for the year ended December 31, 1997. The decrease is primarily attributable to a lower average invested cash balance during 1998.

Total expenses for the year ended December 31, 1998 were $1,856,891 compared to $1,744,380 for the year ended December 31, 1997. The increase is primarily attributable to an increase in interest expense which was offset in part by a decrease in general and administrative expenses.

Property operating expenses consisted primarily of on-site personnel expenses, utility costs, repair and maintenance costs, property management fees, advertising costs, insurance and real estate taxes. Property operating expenses for the year ended December 31, 1998 were $622,700, slightly decreased from $632,243 for the year ended December 31, 1997. The decrease is primarily attributable to lower real estate tax expense and repair and maintenance costs in 1998 offset in part by increases in all other expense areas.

Interest expense totaled $739,720 for the year ended December 31, 1998 compared to $617,680 for the year ended December 31, 1998. The increase is primarily attributable to the prepayment penalty of $139,223 associated with the Refinancing in December 1998.

General and administrative expenses for the year ended December 31, 1998 were $105,490 compared to $116,963 for the year ended December 31, 1997. The decrease is primarily attributable to decreases in accounting and administrative expenses.

1997 Compared With 1996

Operations resulted in a net loss of $417,257 for the year ended December 31, 1997 compared to a net loss of $139,137 for the year ended December 31, 1996. The higher net loss for the 1997 period is primarily attributable to the Partnership realizing an extraordinary gain of $226,111 in 1996 as a result of the Modification Agreement entered into with the Lender in the second quarter of 1996. Results of operations before the extraordinary gain resulted in a net loss of $365,248 for the year ended December 31, 1996. The increased loss before extraordinary items from 1996 to 1997 is primarily attributable to an increase in general and administrative expenses.

Rental income at Fifth Avenue totaled $1,310,235 for the year ended December 31, 1997, largely unchanged from $1,311,406 for the year ended December 31, 1996. Occupancy at Fifth Avenue averaged approximately 95% during 1997, compared to 94% during 1996. The average rental income per occupied square foot at Fifth Avenue was $8.20 in 1997, compared to $8.21 in 1996. At December 31, 1997, Fifth Avenue was 95% occupied.

Interest and other income totaled $16,888 for the year ended December 31, 1997 compared $29,985 for the year ended December 31, 1996. The decrease is primarily attributable to a lower average invested cash balance during 1997 as a result of payments made in connection with the Modification Agreement during the second quarter of 1996.

Total expenses for the year ended December 31, 1997 were $1,744,380 compared to $1,706,639 for the year ended December 31, 1996. The increase is due to higher general and administrative, interest and depreciation expenses, which were partially offset by lower property operating expenses.

Property operating expenses consisted primarily of on-site personnel expenses, utility costs, repair and maintenance costs, property management fees, advertising costs, insurance and real estate taxes. Property operating expenses for the year ended December 31, 1997 were $632,243 compared to $670,974 for the year ended December 31, 1996. The decrease is primarily attributable to lower expenses in 1997 in all areas other than utilities and other non-capital expenditures.

Interest expense totaled $617,680 for the year ended December 31, 1997 compared with $612,738 for the year ended December 31, 1996. The change is primarily attributable to increased interest payable under the Modification Agreement.

General and administrative expenses for the year ended December 31, 1997 were $116,963 compared to $50,610 for the year ended December 31, 1996. Effective January 1, 1997, the Partnership reimbursed certain expenses incurred by an unaffiliated third party service provider in servicing the Partnership. In prior periods, affiliates of a General Partner had voluntarily absorbed these expenses.

Year 2000 Issues

The Partnership recognized that the arrival of the Year 2000 poses a unique challenge to the ability of an entity's information technology system and non-information technology systems to recognize the date change from December 31, 1999 to January 1, 2000. The Partnership has assessed and made certain changes to provide for continued functionality of its systems and has evaluated the readiness of the Partnership's external entities, such as vendors, customers, payment systems and others. Due to the nature and extent of the Partnership's operations that are affected by Year 2000 issues, the Partnership does not believe that Year 2000 issues will have a material adverse effect on the business operation or the financial performance of the Partnership. There can be no assurance, however, that Year 2000 issues will not adversely effect the Partnership or its business. The Partnership believes that the cost to make appropriate changes to its internal and external systems will not be significant and that such costs will be funded completely through operations.

General

The effect of inflation on the results of operations for the years ended December 31, 1998, 1997 and 1996 was not significant.

Over the past several years the real estate market has gotten stronger and thus improvement has resulted in an increase in the number of potential buyers as well as the number of parties interested in purchasing limited partnership units on the secondary market. Some of these groups have solicited the Partnership's Limited Partners directly with offers to buy their units. The General Partners are constantly analyzing market conditions, comparable sales, and economic trends in order to evaluate their impact on the value of the Partnership's property, and intend to consider the sale of Fifth Avenue at the time when such sale will maximize the property's value and otherwise be in the best interests of the Limited Partners.

Words or phrases when used in this Form 10-K or other filings with the Securities and Exchange Commission, such as "does not believe" and "believes", or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Partnership's primary market risk exposure relates to changes in interest rates related to its long-term debt. To limit the impact of interest rate changes, the Partnership has entered into fixed rate debt of 7.16% that expires in 2009. As a result, the Partnership's only interest rate risk is the opportunity loss should interest rates decline. The following table summarizes the expected maturities of the Partnership's long-term debt. As the debt was refinanced in December 1998, the Partnership believes the fair value approximates the carrying amount as the rate of the debt represents borrowing rates currently available to the Partnership for such loans with similar terms and maturities.

<TABLE>
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Year ending December 31,	
1999	$ 57,607
2000	67,296
2001	72,276
2002	77,624
2003	83,368
Thereafter	6,041,829

	$ 6,400,000

</TABLE>

The fair value of the Partnership's remaining financial instruments, consisting of cash and cash equivalents, cash held in escrow, restricted cash replacement reserves, accounts receivable and accounts payable, approximate fair value due to the short-term nature of these instruments and are relatively unaffected by interest rate changes or other market risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed as part of this report:

Page Number

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Murray Realty Investors VII, Inc., a Texas corporation, SM7 Apartment Investors Inc., a Texas corporation ("SM7"), and Crozier Partners VII, Ltd., a Texas limited partnership, are the General Partners of the Partnership. On June 16, 1998, DA Group Holdings, Inc., a Delaware corporation and the parent company of SM7 ("DA"), and Anterra Property Investors VIII, Inc., a Texas corporation ("Anterra"), entered into a Stock Purchase Agreement. Pursuant to the Stock Purchase Agreement, Anterra purchased from DA all of the issued and outstanding shares of common stock, $1.00 par value per share, of SM7. Anterra is an affiliate of Anterra Property Investors VII, Inc. which is the general partner of Crozier Partners VII, Ltd. The following is a summary of certain information concerning the directors and executive officers of Anterra Property Investors VII, Inc., Murray Realty Investors VII, Inc. and SM7 Apartment Investors Inc., as of December 31, 1998.

Anterra Property Investors VII, Inc., general partner of Crozier Partners VII, Ltd.

Richard E. Hoffmann, 44, President, Treasurer and Director. For more than five years prior to July 15, 1990, Mr. Hoffmann was a Vice President and Treasurer of Murray Properties Company and various other affiliated companies. He resigned his position with substantially all Murray Properties Company affiliates on July 15, 1990. Mr. Hoffmann was elected Senior Vice President, Treasurer and a Director of Anterra Realty Corporation in June of 1990, and was elected President of Anterra Realty Corporation in July of 1994. He is President, Treasurer and a Director of all other subsidiary corporations of Anterra Realty Corporation, including Anterra Property Investors VII, Inc. Mr. Hoffmann received a Master of Business Administration degree from the University of Texas at Austin in 1979 and a B.S. from Tulane University in 1977. He is a Certified Public Accountant.

Lynn D. Maynard, 46, Executive Vice President and Director. For more than five years prior to December 26, 1989, Ms. Maynard was an officer of Murray Properties Company and various other affiliated companies. She was elected Vice President of Murray Properties Company and Murray Realty Investors, Inc. in December of 1986. Ms. Maynard resigned her positions with substantially all Murray Properties Company affiliates on December 26, 1989. Ms. Maynard was elected Senior Vice President and a Director of Anterra Realty Corporation in November 1989, and is Executive Vice President and a Director of all other subsidiary corporations of Anterra Realty Corporation, including Anterra Property Investors VII, Inc. Ms. Maynard received a Bachelor of Science Degree in Accounting from the University of Texas at Dallas, and is a Certified Public Accountant. She is a member of the American Institute of Certified Public Accountants, the Texas Society of Certified Public Accountants and the Dallas Chapter of Certified Public Accountants.

Murray Realty Investors VII, Inc., Corporate General Partner

Fulton Murray, 58, President and Chairman of the Board. Mr. Murray has been Chairman of the Board and Chief Executive Officer of Murray Properties Company and Murray Financial Corporation for more than five years prior to the date of this report. In addition, he is a director or officer of substantially all affiliates of Murray Properties Company. His family, or trusts for their benefit, own approximately 64% of the outstanding stock of Murray Financial Corporation, which is the parent corporation of Murray Properties Company and most of its affiliates. He holds a Bachelor of Business Administration degree in Finance from Southern Methodist University.

Charles W. Karlen, 63, Vice President. Mr. Karlen is Senior Vice President and Treasurer of Murray Financial Corporation. Prior to joining the Murray Organization in 1971, he was employed by Peat Marwick Mitchell & Co., a public accounting firm. Mr. Karlen is a Certified Public Accountant and holds a Bachelor of Business Administration degree in Accounting from the University of North Texas.

SM7 Apartment Investors Inc., Corporate General Partner

Richard E. Hoffmann, 44, President, Treasurer and Director. For more than five years prior to July 15, 1990, Mr. Hoffmann was a Vice President and Treasurer of Murray Properties Company and various other affiliated companies. He resigned his position with substantially all Murray Properties Company affiliates on July 15, 1990. Mr. Hoffmann was elected Senior Vice President, Treasurer and a Director of Anterra Realty Corporation in June of 1990, and was elected President of Anterra Realty Corporation in July of 1994. He is President, Treasurer and a Director of all other subsidiary corporations of Anterra Realty Corporation, including SM7 Apartment Investors Inc. Mr. Hoffmann received a Master of Business Administration degree from the University of Texas at Austin in 1979 and a B.S. from Tulane University in 1977. He is a Certified Public Accountant.

Lynn D. Maynard, 46, Executive Vice President and Director. For more than five years prior to December 26, 1989, Ms. Maynard was an officer of Murray Properties Company and various other affiliated companies. She was elected Vice President of Murray Properties Company and Murray Realty Investors, Inc. in December of 1986. Ms. Maynard resigned her positions with substantially all Murray Properties Company affiliates on December 26, 1989. Ms. Maynard was elected Senior Vice President and a Director of Anterra Realty Corporation in November 1989, and is Executive Vice President and a Director of all other subsidiary corporations of Anterra Realty Corporation including SM7 Apartment Investors Inc. Ms. Maynard received a Bachelor of Science Degree in Accounting from the University of Texas at Dallas, and is a Certified Public Accountant. She is a member of the American Institute of Certified Public Accountants, the Texas Society of Certified Public Accountants and the Dallas Chapter of Certified Public Accountants.

Affiliated Bankruptcies

Certain officers and directors of Murray Realty Investors VII, Inc. were also officers and directors or general partners of affiliates of Murray Realty Investors VII, Inc. which served as general partners of certain affiliated public funds which filed cases under Chapter 11 of the Federal Bankruptcy Code. Certain officers and directors of SM7 Apartment Investors Inc. were also officers and directors of companies which served as general partners of these affiliated public funds. Additionally, Fulton Murray was a general partner of a partnership that had an involuntary bankruptcy petition filed against it, which was subsequently dismissed. All the partnerships which commenced cases under the Federal Bankruptcy Code owned real estate that was secured by significant amounts of debt. As a result of the dramatic decline in the economy and overbuilding in the markets in which those partnerships held real estate, those partnerships were unable to meet their scheduled debt payments and commenced bankruptcy cases to protect each partnerships' properties from foreclosure by the lenders to such partnerships.

ITEM 11. EXECUTIVE COMPENSATION

The Partnership has not paid and does not propose to pay any cash compensation, bonuses or deferred compensation, compensation pursuant to retirement or other plans, or other compensation to the officers, directors, or partners of the General Partners. The General Partners and their affiliates receive various fees and distributions. See Item 13. "Certain Relationships and Related Transactions" for information on the fees and other compensation or reimbursements paid to the General Partners or their affiliates during the year ended December 31, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Beneficial owners of 5% or more of Registrant's Securities

Title of Class	Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Limited Partnership Interest, $1,000 per Interest	Naomi Ruth Wilden Trust 130 E. Main St., #299 Medford, OR 97501-6004	600 (owned beneficially and of record)	5.4%

(b) No General Partner or any officer or director of a General Partner beneficially owned or owned of record directly or indirectly any Interests as of December 31, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) During the years ended December 31, 1998, 1997 and 1996, the General Partners or their affiliates were reimbursed for Partnership administrative and operating expenses, excluding property management fees, in the amounts of $11,385, $1,262 and $7,132, respectively.

On January 1, 1990, Murray Management Corporation retained Anterra Management Corporation, an affiliate of the general partners, to provide certain administrative and management services with respect to the Partnership and its Properties. Anterra Management Corporation is a real estate related service company formed by former executive officers of Murray and its affiliates, and earned property management fees of $67,759, $52,420 and $55,489 for the years ended December 31, 1998, 1997 and 1996, respectively.

Effective January 1, 1997, the Partnership began reimbursing certain expenses incurred by an unaffiliated third party service provider in servicing the Partnership. In prior years, affiliates of a General Partner had voluntarily absorbed these expenses.

(b) None.

(c) No management person is indebted to the Partnership.

(d) Not applicable.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) 1. Financial Statements - see Index to Financial Statements in Item 8 of this Form 10-K.

2. Financial Statement Schedule - see Index to

Financial Statements in Item 8 of this Form 10-K.

All other schedules have been omitted because they are not required or the required information is shown in the financial statements or notes thereto.

(b) Reports on Form 8-K filed during the last quarter of the fiscal year:

Form 8-K filed December 14, 1998 reporting refinancing on December 3, 1998 of the Partnership's mortgage note payable.

(c) Exhibits:

2a Voluntary Petition of Shearson-Murray Real Estate Fund VII, Ltd. to commence a case under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the Western District of Texas-Austin Division, as filed on June 6, 1989. Reference is made to Exhibit 2a to Form 10-K filed with the Securities and Exchange Commission on June 14, 1989.

2b Modified First Amended Plan of Reorganization of Shearson-Murray Real Estate Fund VII, Ltd. in the United States Bankruptcy Court for the Western District of Texas-Austin Division Case No. 89-11662-LC filed February 20, 1990. Reference is made to the Partnership's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 12, 1990.

3 Agreement of Limited Partnership of Shearson-Murray Real Estate Fund VII, Ltd., as amended as of September 30, 1983. Reference is made to Form 8-K filed with the Securities and Exchange Commission on October 26, 1983. Reference is made to Exhibit A to the Prospectus dated June 10, 1983 contained in Amendment No. 3 to Partnership's Form S-11 Registration Statement filed with the Securities and Exchange Commission June 10, 1983.

10a Assignment and Assumption Agreement between Murray Management Corporation and Anterra Management Corporation for property management and leasing services dated January 1, 1990. Reference is made to Exhibit 10u to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1989 filed with the Securities and Exchange Commission May 15, 1990.

10b Loan Agreement between S/M Real Estate Fund VII, Ltd. and General Electric Capital Corporation, dated December 3, 1998. (Incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 14, 1998).

27 Financial Data Schedule.

28a Pages A-16 to A-18 of Exhibit A to the Prospectus dated June 10, 1983, contained in Amendment No. 3 to Partnership's Form S-11 Registration Statement filed with the Securities and Exchange Commission on June 10, 1983. Reference is made to Exhibit 28a of the Registrant's Form 10-K filed with the Securities and Exchange Commission on May 12, 1988.

28b Pages 10-18 of the Prospectus dated June 10, 1983, contained in Amendment No. 3 to Partnership's Form S-11 Registration Statement filed with the Securities and Exchange Commission on June 10, 1983. Reference is made to Exhibit 28b of the Registrant's Form 10-K filed with the Securities and Exchange Commission on May 12, 1988.

99a Compromise Settlement Agreement between S/M Real Estate Fund VII, Ltd. and Federal National Mortgage Association, dated May 6, 1996. (Incorporated by reference from Exhibit 99.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).

99b $5,830,000 Multifamily Note and Addendum, dated May 30, 1996. (Incorporated by reference from Exhibit 99.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).

99c $681,142 Subordinate Multifamily Note and Addendum, dated May 30, 1996. (Incorporated by reference from Exhibit 99.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).

99d $6,400,000 Promissory Note, dated December 3, 1998. (Incorporated by reference from Exhibit 99.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 14, 1998).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

S/M REAL ESTATE FUND VII, LTD.

BY: SM7 APARTMENT INVESTORS INC.
A General Partner

Date: March 26, 1999

BY: /s/ Richard E. Hoffmann

Richard E. Hoffmann
Director and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following members of the Board of Directors and officers of SM7 Apartment Investors Inc., a corporate general partner of the registrant, on behalf of the Registrant in the capacities and on the dates indicated.

Date: March 26, 1999

BY: /s/ Richard E. Hoffmann

Richard E. Hoffmann
President, Director and Treasurer

Date: March 26, 1999

BY: /s/ Lynn D. Maynard

Lynn D, Maynard
Executive Vice President and Director

Date: March 26, 1999

BY: /s/ Sandy Robison

Chief Financial Officer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following members of the Board of Directors and officers of Anterra Property Investors VII, Inc., a corporate general partner of the registrant, on behalf of the Registrant in the capacities and on the dates indicated.

BY: CROZIER PARTNERS VII, LTD.
A general partner

BY: ANTERRA PROPERTY INVESTORS VII, INC.,
General Partner of Crozier Partners VII, Ltd.

Date: March 26, 1999

BY: /s/ Richard E. Hoffman

Richard E. Hoffman
President, Director and Treasurer

Date: March 26, 1999

BY: /s/ Lynn D. Maynard

Lynn D. Maynard
Executive Vice President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following members of the Board of Directors and officers of Murray Realty Investors VII, Inc., a corporate general partner of the registrant, on behalf of the Registrant in the capacities and on the dates indicated.

MURRAY REALTY INVESTORS VII, INC.
A General Partner

Date: March 26, 1999

BY: /s/ Fulton Murray

Fulton Murray
President and Chairman of the Board

Date: March 26, 1999

BY: /s/ Charles W. Karlen

Charles W. Karlen
Vice President

INDEX TO EXHIBITS

Document Number	Description
2a	Voluntary Petition of Shearson-Murray Real Estate Fund VII, Ltd. to commence a case under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the Western District of Texas-Austin Division, as filed on June 6, 1989. Reference is made to Exhibit 2a to Form 10-K filed with the Securities and Exchange Commission on June 14, 1989.
2b	Modified First Amended Plan of Reorganization of Shearson-Murray Real Estate Fund VII, Ltd. In the United States Bankruptcy Court for the Western District of Texas-Austin Division Case No. 89-11662-LC filed February 20, 1990. Reference is made to the Partnership's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 12, 1990.
3	Agreement of Limited Partnership of Shearson-Murray Real Estate Fund VII, Ltd., as amended as of September 30, 1983. Reference is made to Form 8-K filed with the Securities and Exchange Commission on October 26, 1983. Reference is made to Exhibit A to the Prospectus dated June 10, 1983 contained in Amendment No. 3 to Partnership's Form S-11 Registration Statement filed with the Securities and Exchange Commission

June 10, 1983.

10a	Assignment and Assumption Agreement between Murray Management Corporation and Anterra Management Corporation for property management and leasing services dated January 1, 1990. Reference is made to Exhibit 10u to the Partnership's Annual Report on Form 10-K for the year ended December 31, 1989 filed with the Securities and Exchange Commission May 15, 1990.
10b	Loan Agreement between S/M Real Estate Fund VII, Ltd. and General Electric Capital Corporation, dated December 3, 1998. Reference is made to Exhibit 10.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 14, 1998.
27	Financial Data Schedule.
28a	Pages A-16 to A-18 of Exhibit A to the Prospectus dated June 10, 1983, contained in Amendment No. 3 to Partnership's Form S-11 Registration Statement filed with the Securities and Exchange Commission on June 10, 1983. Reference is made to Exhibit 28a of the Registrant's Form 10-K filed with the Securities and Exchange Commission on May 12, 1988.
28b	Pages 10-18 of the Prospectus dated June 10, 1983, contained in Amendment No. 3 to Partnership's Form S-11 Registration Statement filed with the Securities and Exchange Commission on June 10, 1983. Reference is made to Exhibit 28b of the Registrant's Form 10-K filed with the Securities and Exchange Commission on May 12, 1988.
99a	Compromise Settlement Agreement between S/M Real Estate Fund VII, Ltd. and Federal National Mortgage Association, dated May 6, 1996. Reference is made to Exhibit 99.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 filed with the Securities and Exchange Commission.
99b	$5,830,000 Multifamily Note and Addendum, dated May 30, 1996. Reference is made to Exhibit 99.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 filed with the Securities and Exchange Commission.
99c	$681,142 Subordinate Multifamily Note and Addendum, dated May 30, 1996. Reference is made to Exhibit 99.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 filed with the Securities and Exchange Commission.
99d	$6,400,000 Promissory Note, dated December 3, 1998. Reference is made to Exhibit 99.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 14, 1998.

INDEPENDENT AUDITORS' REPORT

The Partners
S/M Real Estate Fund VII, Ltd.:

We have audited the financial statements of S/M Real Estate Fund VII, Ltd. (a

Texas Limited Partnership), as listed in the accompanying index. In connection with our audits of the financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These financial statements and the financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of S/M Real Estate Fund VII, Ltd. as of December 31, 1998 and 1997, and the results of its operations and its 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 financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Dallas, Texas
February 12, 1999

S/M REAL ESTATE FUND VII, LTD.

<TABLE>
<CAPTION>

BALANCE SHEETS	AT DECEMBER 31, 1998	AT DECEMBER 31, 1997
<S>	<C>	<C>
ASSETS		
Real estate, at cost:		
Land	$ 962,216	$ 962,216
Buildings and improvements	7,707,214	7,663,486
	8,669,430	8,625,702
Less accumulated depreciation	(5,587,802)	(5,199,331)
	3,081,628	3,426,371
Cash and cash equivalents	274,735	209,924
Cash held in escrow	35,987	201,966
Restricted cash - replacement reserve	114,375	88,004
Accounts receivable	6,311	1,987
Other assets	72,108	13,928
TOTAL ASSETS	$ 3,585,144	$ 3,942,180
LIABILITIES AND PARTNERS' DEFICIT		
Liabilities:		
First mortgage note payable	$ 6,400,000	$ 5,738,101

Second mortgage note payable (less unamortized discount based on imputed interest rate of 10.5%)	--	459,550
Accounts payable:		
Trade	13,374	5,814
Affiliates	60,070	40,664
Accrued expenses and other liabilities	52,796	210,422
Total Liabilities	6,526,240	6,454,551
Partners' Deficit:		
General Partners	(116,023)	(111,736)
Limited Partners (11,080 units outstanding)	(2,825,073)	(2,400,635)
Total Partners' Deficit	(2,941,096)	(2,512,371)
TOTAL LIABILITIES AND PARTNERS' DEFICIT	$ 3,585,144	$ 3,942,180

</TABLE>

<TABLE>
<CAPTION>

STATEMENTS OF PARTNERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<S>	GENERAL PARTNERS <C>	LIMITED PARTNERS <C>	TOTAL <C>
BALANCE AT DECEMBER 31, 1995	$ (106,172)	$(1,849,805)	$(1,955,977)
Net Loss	(1,391)	(137,746)	(139,137)
BALANCE AT DECEMBER 31, 1996	$ (107,563)	$(1,987,551)	$(2,095,114)
Net Loss	(4,173)	(413,084)	(417,257)
BALANCE AT DECEMBER 31, 1997	$ (111,736)	$(2,400,635)	$(2,512,371)
Net Loss	(4,287)	(424,438)	(428,725)
BALANCE AT DECEMBER 31, 1998	$ (116,023)	$(2,825,073)	$(2,941,096)

</TABLE>

See accompanying notes to the financial statements.

S/M REAL ESTATE FUND VII, LTD.

<TABLE>
<CAPTION>

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, <S>	1998 <C>	1997 <C>	1996 <C>
INCOME			
Rental	$ 1,351,810	$ 1,310,235	$ 1,311,406
Interest and other	8,718	16,888	29,985
Total Income	1,360,528	1,327,123	1,341,391

EXPENSES			
Property operating	622,700	632,243	670,974
Interest	739,720	617,680	612,738
Depreciation and amortization	388,981	377,494	372,317
General and administrative	105,490	116,963	50,610
Total Expenses	1,856,891	1,744,380	1,706,639
Loss before extraordinary item	(496,363)	(417,257)	(365,248)
EXTRAORDINARY ITEM			
Gain on debt restructuring	67,638	--	226,111
NET LOSS	$ (428,725)	$ (417,257)	$ (139,137)
NET LOSS ALLOCATED:			
To the General Partners	$ (4,287)	$ (4,173)	$ (1,391)
To the Limited Partners	(424,438)	(413,084)	(137,746)
	$ (428,725)	$ (417,257)	$ (139,137)
PER LIMITED PARTNERSHIP UNIT (11,080 OUTSTANDING)			
Net loss before extraordinary item	$ (44.35)	$ (37.28)	$ (32.63)
Extraordinary item	6.04	--	20.20
NET LOSS	$ (38.31)	$ (37.28)	$ (12.43)

</TABLE>

See accompanying notes to the financial statements.

S/M REAL ESTATE FUND VII, LTD.

<TABLE>
<CAPTION>

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Loss	$ (428,725)	$ (417,257)	$ (139,137)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	388,981	377,494	372,317
Extraordinary gain on debt restructuring	(67,638)	--	(226,111)
Increase (decrease) in cash arising from changes in operating assets and liabilities:			
Cash held in escrow	165,979	(107,050)	10,985
Accounts receivable	(4,324)	199	(1,385)
Other assets	2,439	(1,757)	9,989
Accounts payable	26,966	4,084	(23,409)
Accrued expenses and other liabilities	(157,626)	78,213	(44,241)
Net cash used in operating activities	(73,948)	(66,074)	(40,992)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in restricted cash - replacement reserve	(26,371)	(9,659)	(78,345)
Additions to real estate	(43,728)	(25,383)	(2,478)

Net cash used in investing activities	(70,099)	(35,042)	(80,823)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of principal on first mortgage note payable	(5,738,101)	(59,694)	(32,205)
Payment of principal and amortization of discount on second mortgage note payable	(391,912)	7,802	4,188
Additions to first mortgage note payable	6,400,000	--	--
Refinancing costs	(61,129)	--	(123,230)
Payment of interest payable	--	--	(300,000)
Net cash provided by (used in) financing activities	208,858	(51,892)	(451,247)
Net increase (decrease) in cash and cash equivalents	64,811	(153,008)	(573,062)
Cash and cash equivalents, beginning of year	209,924	362,932	935,994
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 274,735	$ 209,924	$ 362,932
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for interest	$ 726,631	$ 569,878	$ 908,550
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:			
Write-off of fully depreciated building improvements	$ --	$ 5,783	$ 9,535
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:			
Refinancing costs funded through accrued expenses	$ --	$ --	$ 50,137

</TABLE>

See accompanying notes to the financial statements.

S/M REAL ESTATE FUND VII, LTD.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

1. ORGANIZATION

S/M Real Estate Fund VII, Ltd. (the "Partnership") (see below) was organized on November 4, 1982 pursuant to the filing of a Certificate of Limited Partnership with the Secretary of State of the State of Texas. The Partnership was formed for the purpose of acquiring existing garden style apartment complexes. The general partners of the Partnership are SM7 Apartment Investors Inc. (see below), a Texas corporation, Murray Realty Investors VII, Inc., a Texas corporation ("Murray") and Crozier Partners VII, Ltd., a Texas limited partnership (collectively referred to as the "General Partners"). The Partnership will continue until January 31, 2012, unless sooner terminated in accordance with the terms of the Partnership Agreement.

On June 16, 1998, DA Group Holdings, Inc., a Delaware corporation ("DA"), and Anterra Property Investors VIII, Inc., a Texas corporation ("Anterra"), entered into a Stock Purchase Agreement (the "Stock Agreement"). Pursuant to the Stock Agreement, Anterra purchased from DA all of the issued and outstanding shares of common stock, $1.00 par value per share, of SM7 Apartment Investors, Inc. Anterra is an affiliate of Anterra Property Investors VII, Inc., which is a general partner of Crozier Partners VII, Ltd.

2. LIQUIDITY

As a result of the recent refinancing, see Note 6, and anticipated reductions in general and administrative expenses, the General Partners currently expect funds from operations to pay all obligations for 1999, including debt service. In the event of any cash flow deficits, it is expected that such deficits will be funded by the Partnership's existing cash balances. However, there can be no assurance that the Partnership will have sufficient cash to fund such deficits.

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Income is recognized as earned and expenses are recorded as obligations are incurred.

REAL ESTATE INVESTMENT The real estate investment, which consists of land, apartment buildings, building improvements and furniture, fixtures and equipment, is recorded at cost less accumulated depreciation. Cost includes the initial purchase price of the property plus acquisition costs. Depreciation is computed using the straight-line method based on estimated useful lives of the related assets ranging from three to twenty-one years.

IMPAIRMENT OF LONG-LIVED ASSETS The Partnership assesses its real estate investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the real estate may not be recoverable. Recoverability of real estate to be held and used is measured by a comparison of the carrying amount of the real estate to future net cash flows (undiscounted and without interest) expected to be generated by the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the real estate exceeds the fair value of the real estate.

LEASE REVENUE The Partnership has determined that all leases associated with the rental of space at the investment property are operating leases. Leases on the Partnership's property typically have a term of one year or less.

CASH AND CASH EQUIVALENTS Cash and cash equivalents consist of short-term highly liquid investments which have maturities of three months or less from the date of issuance. The carrying value approximates fair value because of the short maturity of these instruments.

INCOME TAXES The Partnership distributes all profits, losses and other taxable items to the individual partners. No provision for income taxes is made in the financial statements of the Partnership since the liability for such taxes is that of the partners rather than the Partnership.

NET INCOME (LOSS) PER LIMITED PARTNERSHIP UNIT Net income (loss) per limited partnership unit is based upon the limited partnership interests outstanding at year-end and the net income (loss) allocated to the limited partners (the "Limited Partners").

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("FAS 107"), requires that the Partnership disclose the estimated fair values of its financial instruments. Fair values generally represent estimates of amounts at which a financial instrument could be exchanged between willing parties in a current transaction other than in forced liquidation.

Fair value estimates are subjective and are dependent on a number of significant assumptions based on management's judgment regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. In addition, FAS 107 allows a wide range of valuation techniques, therefore, comparisons between entities, however similar, may be difficult.

4. PARTNERSHIP AGREEMENT

Pursuant to the terms of the Partnership Agreement, all items of income, gain, loss, deduction and credit are generally allocated 1% to Crozier Partners VII, Ltd. and 99% to the Limited Partners except that: (a) first, income and net gain shall be allocated to the General Partners and the Limited Partners pro rata based on and to the extent of their respective deficit balances in their capital accounts in an amount sufficient to cause the aggregate deficits in the Partners' capital accounts to not exceed the Minimum Gain (as defined), (b) net gain shall then be allocated: (i) to the Limited Partners in an amount sufficient to cause each Limited Partner's capital account to equal its unreturned Original Invested Capital plus any unpaid Preferred Return (as defined); and (ii) then, to the Limited Partners and the General Partners in the proportion between them of 85% to the Limited Partners and 15% to the General Partners.

Cash distributions from operations, as defined, will be allocated 1% to Crozier Partners VII, Ltd. and 99% to the Limited Partners. Cash distributions from sales or refinancings of property will be allocated 99% to the Limited Partners and 1% to Crozier Partners VII, Ltd. until the Limited Partners have received an amount from cash distributions from sales or refinancings or property equal to their Original Invested Capital plus their Preferred Return (as defined). Next, cash distributions from the sale or refinancing of property will be allocated 1% to Crozier Partners VII, Ltd., and 99% to the Limited Partners and the General Partners in the proportions between them of 85% to the Limited Partners and 15% to the General Partners.

5. REAL ESTATE INVESTMENTS

On July 29, 1983, the Partnership acquired Fifth Avenue Apartments ("Fifth Avenue"), a 198-unit apartment complex located in San Antonio, Texas. As of December 31, 1998 and 1997, Fifth Avenue was 93% and 95% occupied, respectively.

6. MORTGAGE NOTES PAYABLE

On December 3, 1998, the Partnership refinanced the mortgage note payable with General Electric Capital Corporation (the "Lender") on Fifth Avenue. In accordance with the terms of the Loan Agreement (the "Agreement"), the principal balance of the original mortgage totaling $6,400,000 is due in ten years and will bear interest at an interest rate of 7.16% (the "New First Mortgage"). Under the terms of the New First Mortgage, the Partnership is required to make fixed monthly payments of principal and interest in the amount of $43,269 commencing on February 1, 1999 until maturity on January 1, 2009, at which time the entire outstanding principal balance is due. As a part of the refinancing, the previous lender forgave $181,142 of debt, resulting in a gain on debt restructuring of $67,638, and required the Partnership to pay a $139,223 prepayment penalty.

Per the terms of the New First Mortgage, the Partnership was required to deposit with the Lender the amount of $114,375 which shall be held by Lender for the completion of certain required repairs.

The previous first and second mortgage (the "Previous Mortgage") had been executed under a modification and extension agreement (the "Modification Agreement") on May 30, 1996 with Federal National Mortgage Association (the "Previous Lender"). At the time the Modification Agreement was executed the first mortgage had an aggregate balance of $7,111,142, representing $5,830,000 in original principal and $1,281,142 in accrued interest. In accordance with the terms of the Modification Agreement, the first mortgage of $5,830,000 had an

S/M REAL ESTATE FUND VII, LTD.

interest rate of 9.875% with fixed monthly payments of principal and interest in the amount of $52,464 and the first mortgage's maturity date was June 1, 2001 (the "Previous First Mortgage").

The accrued interest on the first mortgage in the amount of $1,281,142 was converted into a second mortgage which was coterminous with the Previous First Mortgage (the "Previous Second Mortgage"). Upon execution of the Modification Agreement, the Partnership made a $300,000 payment to the Lender, at which time the Lender reduced the Previous Second Mortgage balance to $681,142. The Previous Second Mortgage was non-interest bearing and scheduled to be fully amortized over the five-year term and pre-payable at any time. Under the terms of the Previous Second Mortgage, payments of principal, in monthly installments of $3,333 were due commencing on July 1, 1996, and continuing through June 1, 1998, $5,000 per month beginning July 1, 1998 and continuing through June 1, 2000, and $8,333 per month beginning July 1, 2000 and continuing until maturity on June 1, 2001. Pursuant to the Modification Agreement, if $500,000 in principal payments have been received unconditionally and irrevocably by the Lender, the Previous Second Mortgage's remaining unpaid principal in the amount $181,142 would be forgiven by the Lender.

The following represents principal payments required under the New First Mortgage for the five years subsequent to December 31, 1998:

<TABLE>

<S>	<C>
Year ending December 31,	
1999	$57,607
2000	67,296
2001	72,276
2002	77,624
2003	83,368

</TABLE>

Based on the borrowing rates currently available to the Partnership for mortgage loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying value as of the balance sheet dates.

7. TRANSACTIONS WITH RELATED PARTIES

During the years ended December 31, 1998, 1997 and 1996, the General Partners or their affiliates were reimbursed for Partnership administrative and operating expenses, excluding property management fees, in the amounts of $11,385, $1,262 and $7,132, respectively.

Effective January 1, 1997, the Partnership began reimbursing certain expenses incurred by an unaffiliated third party service provider in servicing the Partnership. In prior years, affiliates of a General Partner had voluntarily absorbed these expenses.

On January 1, 1990, Murray Management Corporation subcontracted Anterra Management Corporation to provide certain administrative and management services with respect to the Partnership. Anterra Management Corporation is a real estate management company and an affiliate of the general partners, and earned property management fees of $67,759, $52,420 and $55,489 for the years ended December 31, 1998, 1997 and 1996, respectively.

S/M REAL ESTATE FUND VII, LTD.

8. RECONCILIATION OF FINANCIAL STATEMENT NET LOSS AND PARTNERS' DEFICIT TO FEDERAL INCOME TAX BASIS NET LOSS AND PARTNERS' DEFICIT

The following is a reconciliation of the net loss for financial statement purposes to federal income tax basis net loss for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Net loss for financial statements purposes	$(428,725)	$(417,257)	$(139,137)
Financial statement depreciation over tax basis depreciation	170,694	167,854	32,479
Financial statement gain on debt restructuring over tax basis	(67,638)	--	(226,111)
Federal income tax basis interest expense under financial statement interest expense	--	58,900	37,676
Other	1,739	(536)	42,406
Federal income tax basis net loss under (over) financial statement net income	104,795	226,218	(113,550)
Federal income tax basis net loss	$(323,930)	$(191,039)	$(252,687)

Reconciliation of financial statement partners' deficit to federal income tax basis partners' deficit for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Financial statement basis partners' deficit	$(2,941,096)	$(2,512,371)	$(2,095,114)
Current year federal income tax basis net loss under (over) financial statement net loss	104,795	226,218	(113,550)
Cumulative federal income tax basis net loss over financial statement net loss	(1,728,037)	(1,954,255)	(1,840,705)
Federal income tax basis partners' deficit	$(4,564,338)	$(4,240,408)	$(4,049,369)

Because many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported above may be subject to change at a later date upon final determination by the taxing authorities.

S/M REAL ESTATE FUND VII, LTD.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 1998

OFFICE BUILDINGS:	FIFTH AVENUE APARTMENTS
Location	San Antonio, TX
Date of construction	1982
Acquisition date	1983
Life on which depreciation in latest income statements is computed	3 - 21 years
Encumbrances	$ 6,400,000
Initial cost to Partnership (1):	
Land	962,216
Building and improvements	7,512,710
Costs capitalized subsequent to acquisition:	
Land, buildings and improvements	209,822
Retirements	(15,318)
Gross amount at which carried at close of period (2):	
Land	$ 962,216
Building and improvements	7,707,214
	$ 8,669,430
Accumulated depreciation	$ 5,587,802

(1) The initial cost to the Partnership represents the original purchase price of the property.

(2) The aggregate cost of real estate at December 31, 1998 and 1997 and 1996, for Federal income tax purposes is $8,831,189, $8,787,461 and $8,762,079, respectively.

A reconciliation of the carrying amount of real estate and accumulated depreciation for the years ended December 31, 1998, 1997, and 1996 follows:

	1998	1997	1996
REAL ESTATE INVESTMENTS:			
Beginning of year	$ 8,625,702	$ 8,606,102	$ 8,613,159
Additions	43,728	25,383	2,478
Retirements	--	(5,783)	(9,535)
End of year	$ 8,669,430	$ 8,625,702	$ 8,606,102
ACCUMULATED DEPRECIATION:			
Beginning of year	$ 5,199,331	$ 4,827,620	$ 4,464,838
Depreciation expense	388,471	377,494	372,317
Retirements	--	(5,783)	(9,535)
End of year	$ 5,587,802	$ 5,199,331	$ 4,827,620

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
27	Financial Data Schedule

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