SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

AEI REAL ESTATE FUND 85-B LTD PARTNERSHIP

CIK:**771677**| IRS No.: **411525197** | State of Incorp.:**MN** | Fiscal Year End: **1231**
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SIC: **6500** Real estate

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

Annual Report Under Section 13 or 15(d)
Of The Securities Exchange Act Of 1934

For the Fiscal Year Ended: December 31, 1998

Commission file number: 0-14264

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP
(Name of Small Business Issuer in its Charter)

State of Minnesota	41-1525197
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1300 Minnesota World Trade Center, St. Paul, Minnesota 55101
(Address of Principal Executive Offices)

(651) 227-7333
(Issuer's telephone number)

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

Title of each class	Name of each exchange on which registered
None	None

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

Limited Partnership Units
(Title of class)

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

Yes [X] No

Check if disclosure of delinquent filers in response to Rule 405 of Regulation S-B is not contained in this Form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB [X]

The Issuer's revenues for year ended December 31, 1998 were $487,621.

As of February 28, 1999, there were 6,637.66 Units of limited partnership interest in the registrant outstanding and owned by

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nonaffiliates of the registrant, which Units had an aggregate market value (based solely on the price at which they were sold since there is no ready market for such Units) of $6,637,660.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has not incorporated any documents by reference into this report.

Transitional Small Business Disclosure Format:

Yes No [X]

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

AEI Real Estate Fund 85-B Limited Partnership (the "Partnership" or the "Registrant") is a limited partnership which was organized pursuant to the laws of the State of Minnesota on September 17, 1985. The registrant is comprised of Net Lease Management 85-B, Inc. (NLM) as Managing General Partner, Robert P. Johnson as the Individual General Partner, and purchasers of partnership units as Limited Partners. The Partnership offered for sale up to $7,500,000 of limited partnership interests (the "Units") (7,500 Units at $1,000 per Unit) pursuant to a registration statement effective July 31, 1985. The Partnership commenced operations on September 17, 1985 when minimum subscriptions of 1,300 Limited Partnership Units ($1,300,000) were accepted. The Partnership's offering terminated February 4, 1986 when the maximum subscription limit of 7,500 Limited Partnership Units ($7,500,000) was reached.

The Partnership was organized to acquire, initially on a debt-free basis, existing and newly constructed commercial properties located in the United States, to lease such properties to tenants under triple net leases, to hold such properties and to eventually sell such properties. From subscription proceeds, the Partnership purchased ten properties, including partial interests in two properties, totaling $6,231,904. The balance of the subscription proceeds was applied to organization and syndication costs, working capital reserves and distributions, which represented a return of capital. The properties are all commercial, single tenant buildings leased under triple net leases, except for one property where the Partnership is responsible for real estate taxes.

The Partnership will hold its properties until the General Partners determine that the sale or other disposition of the properties is advantageous in view of the Partnership's investment objectives. In deciding whether to sell properties, the General Partners will consider factors such as potential appreciation, net cash flow and income tax considerations. In addition, certain lessees have been granted options to purchase properties after a specified portion of the lease term has elapsed. It is anticipated that the Partnership will sell its properties within twelve years after acquisition. At any time prior to selling the properties, the Partnership may mortgage one

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or more of its properties in amounts not exceeding 50% of the fair market value of the property.

Leases

Although there are variations in the specific terms of the leases, the following is a summary of the general terms of the Partnership's leases. The properties are leased to various tenants under triple net leases, which are classified as operating leases. Under a triple net lease, the lessee is responsible for all real estate taxes, insurance, maintenance, repairs and operating expenses for the property. The initial lease terms are for 5 to 20 years. The leases provide for base annual rental payments, payable in monthly installments, and contain rent clauses which entitle the Partnership to receive additional rent in future years based on stated rent increases or if gross receipts for the property exceed certain specified amounts, among other conditions.

Most of the leases provide the lessees with two five-year renewal options subject to the same terms and conditions as the initial lease. Certain lessees have been granted options to purchase the property. Depending on the lease, the purchase price is either determined by a formula, or is the greater of the fair market value of the property or the amount determined by a formula. In all cases, if the option were to be exercised by the lessee, the purchase price would be greater than the original cost of the property.

ITEM 1. DESCRIPTION OF BUSINESS. (Continued)

The Fair Muffler property, located in Park Forest, Illinois, is a one-story brick building of approximately 2,450 square feet on a 19,388 square foot parcel of land. It was acquired in August, 1986 subject to a long-term triple net Lease for 20 years. In 1989, the lessee filed for bankruptcy and the Partnership re-leased the property to a Fair Muffler franchisee who had been operating the property as a sublessee. That franchisee continued to operate the property until December, 1996. In January, 1997, it was leased on a month-to-month basis to a car care operator for $2,600 per month.

In 1996, in anticipation of selling the property, the Partnership conducted an environmental soil contamination investigation of the property. The investigation revealed contamination of approximately 2,750 cubic yards exceeding Tier 1 soil migration to Class II groundwater, which will need to be remediated. The contamination has been identified as petroleum constituents and is believed to have been caused by underground storage tanks in place when the property was operated as a gasoline station, prior to the Partnership's ownership.

An estimate for site remediation work, which includes contaminated soil removal, tank removal, soil sampling, backfilling and reporting, of $211,000 was received from an environmental engineering firm. The Partnership has engaged legal counsel to investigate what sources, if any, are available for indemnification of these reclamation costs. In the third

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quarter of 1996, the Partnership accrued a current liability of $211,000 to remediate the site. It has not been determined when the reclamation work will begin or how long it will take to complete. It is reasonably possible that the actual costs could materially differ from the estimate.

The Partnership obtained an independent appraisal of the property which showed a value of $125,000. In the fourth quarter of 1995, a charge to operations for real estate impairment of $116,252 was recognized, which is the difference between book value at December 31, 1995 of $241,252 and the appraised market value of $125,000. The charge was recorded against the carrying amount of the land.

Since 1995, the Partnership has not paid real estate taxes on the Park Forest property while it was unsuccessfully appealing the real estate tax valuation of the property. During this period of time the Partnership accrued $128,958 of real estate taxes, of which $86,399 was accrued as of December 31, 1996. In 1997, the taxing authority sold the property for unpaid taxes to an unrelated third party. Since the tax liability exceeded the appraised market value of the property, the Partnership did not redeem the tax sale. Consequently, the Partnership reversed the tax accrual resulting in a $86,399 credit to 1997 expenses. Since the Partnership intended to allow the tax sale to be completed, a charge to operations for an additional real estate impairment of $117,823 was recognized in the third quarter of 1997, to write down the carrying value of the property to zero. The third party who purchased the unpaid taxes has not filed a petition for issuance of the tax deed.

On August 5, 1998, the Partnership sold the Fair Muffler property to the current tenant for $5,000. The sale resulted in a net gain of $704. The Partnership is reviewing its legal obligation for the site liability and may have adjustments to the accrued liability in future periods.

On February 17, 1997, the Partnership sold the Auto Max property to an unrelated third party. The Partnership received net sale proceeds of $411,993, which resulted in a net gain of $109,147. At the time of sale, the cost and related accumulated depreciation of the property was $388,800 and $85,954, respectively.

On January 21, 1998, the Cheddar's restaurant was destroyed by fire. The lessee rebuilt and reopened on November 16, 1998. The lessee had adequate insurance coverage to cover the cost of rebuilding and the rental payments in the interim.

ITEM 1. DESCRIPTION OF BUSINESS. (Continued)

Major Tenants

During 1998, three of the Partnership's lessees each contributed more than ten percent of the Partnership's total rental revenue. The major tenants in aggregate contributed 75% of the Partnership's total rental revenue in 1998. It is anticipated that, based on the minimum rental payments required

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under the leases, each major tenant will continue to contribute more than ten percent of the Partnership's total rental revenue in 1999 and future years. Any failure of these major tenants or business concepts could materially affect the Partnership's net income and cash distributions.

Competition

The Partnership is a minor factor in the commercial real estate business. There are numerous entities engaged in the commercial real estate business which have greater financial resources than the Partnership. At the time the Partnership elects to dispose of its properties, the Partnership will be in competition with other persons and entities to find buyers for its properties.

Employees

The Partnership has no direct employees. Management services are performed for the Partnership by AEI Fund Management, Inc., an affiliate of AFM.

Year 2000 Compliance

The Year 2000 issue is the result of computer systems that use two digits rather than four to define the applicable year, which may prevent such systems from accurately processing dates ending in the Year 2000 and beyond. This could result in computer system failures or disruption of operations, including, but not limited to, an inability to process transactions, to send or receive electronic data, or to engage in routine business activities.

AEI Fund Management, Inc. (AEI) performs all management services for the Partnership. In 1998, AEI completed an assessment of its computer hardware and software systems and has replaced or upgraded certain computer hardware and software using the assistance of outside vendors. AEI has received written assurance from the equipment and software manufacturers as to Year 2000 compliance. The costs associated with Year 2000 compliance have not been, and are not expected to be, material.

The Partnership intends to monitor and communicate with tenants regarding Year 2000 compliance, although there can be no assurance that the systems of the various tenants will be Year 2000 compliant.

ITEM 2. DESCRIPTION OF PROPERTIES.

Investment Objectives

The Partnership's investment objectives were to acquire existing or newly-developed commercial properties throughout the United States that offer the potential for (i) preservation and protection of the Partnership's capital; (ii) partially tax-deferred cash distributions from operations which may increase through rent participation clauses or mandated rent increases; and (iii) long-term capital gains through appreciation in value

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of the Partnership's properties realized upon sale. The Partnership does not have a policy, and there is no limitation, as to the amount or percentage of assets that may be invested in any one property. However, to the extent possible, the General Partners attempt to diversify the type and location of the Partnership's properties.

ITEM 2. DESCRIPTION OF PROPERTIES. (Continued)

Description of Properties

The Partnership's properties are all commercial, single tenant buildings. All the properties were acquired on a debt-free basis and are leased to various tenants under triple net leases, which are classified as operating leases. The Partnership holds an undivided fee simple interest in the properties. At any time prior to selling the properties, the Partnership may mortgage one or more of its properties in amounts not exceeding 50% of the fair market value of the property.

The Partnership's properties are subject to the general competitive conditions incident to the ownership of single tenant investment real estate. Since each property is leased under a long-term lease, there is little competition until the Partnership decides to sell the property. At this time, the Partnership will be competing with other real estate owners, on both a national and local level, in attempting to find buyers for the properties. In the event of a tenant default, the Partnership would be competing with other real estate owners, who have property vacancies, to attract a new tenant to lease the property. The Partnership's tenants operate in industries that are very competitive and can be affected by factors such as changes in regional or local economies, seasonality and changes in consumer preference.

The following table is a summary of the properties that the Partnership acquired and owned as of December 31, 1998.
<TABLE>
<CAPTION>

Property	Purchase Date	Total Property Acquisition Costs	Lessee	Annual Lease Payment	Annual Rent Per Sq. Ft.
<S>	<C>	<C>	<C>	<C>	<C>
Arby's Restaurant Jackson, TN	10/14/86	$ 752,971	RTM Acquisition Company, LLC	$ 95,842	$ 30.88
All Tune & Lube Merrillville, IN	10/21/86	$ 304,432	Diana L. Franks & Ernie R. Alverado	$ 36,500	$ 15.79
Denny's Restaurant Fort Worth, TX	10/31/86	$ 981,764	Huntington Restaurants Group, Inc.	$ 42,000	$ 10.66
Cheddar's Restaurant Fort Wayne, IN	12/31/86	$1,480,553	Phaedra Partners Ltd.	$ 192,920	$ 25.22
Arby's Restaurant Colorado Springs, CO	3/31/87	$ 447,177	Circle Restaurant Company	$ 40,000	$ 26.83

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Children's World Daycare Center Sterling Heights, MI (16.3486%)	11/25/87	$ 143,391	ARAMARK Educational Resources, Inc.	$ 21,243	$ 21.04

</TABLE>

The property listed above with a partial ownership percentage is owned with AEI Real Estate Fund XVI Limited Partnership, an affiliate of the Partnership. Each Partnership owns a separate, undivided interest in the property. No specific agreement or commitment exists between the Partnerships as to the management of their respective interests in the property, and the Partnership that holds more than a 50% interest does not control decisions over the other Partnership's interest.

ITEM 2. DESCRIPTION OF PROPERTIES. (Continued)

The Lease terms are 20 years except for the Denny's restaurant (5 years), the All Tune & Lube (10 years). Most of the Leases contain renewal options which may extend the Lease term an additional 10 years.

Pursuant to the Lease Agreements, the tenants are required to provide proof of adequate insurance coverage on the properties they occupy. The General Partners believe the properties are adequately covered by insurance and consider the properties to be well-maintained and sufficient for the Partnership's operations.

For tax purposes, the Partnership's properties are depreciated under the either the Accelerated Cost Recovery System (ACRS) or the Modified Accelerated Cost Recovery System (MACRS), depending on the date when it was placed in service. The largest depreciable component of a property is the building which is depreciated, using the straight-line method, over either 19 years (ACRS) or 31.5 years (MACRS). The remaining depreciable components of a property are personal property and land improvements which are depreciated, using an accelerated method, over 5 and 15 years, respectively. Since the Partnership has tax-exempt Partners, the Partnership is subject to the rules of Section 168(h)(6) of the Internal Revenue Code which requires a percentage of the properties' depreciable components to be depreciated over longer lives using the straight-line method. In general the federal tax basis of the properties for tax depreciation purposes is the same as the basis for book depreciation purposes.

During the last five years, all properties were 100 percent occupied by the lessees.

ITEM 3. LEGAL PROCEEDINGS.

None.

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

None.

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PART II

ITEM 5.MARKET FOR THE REGISTRANT'S PARTNERSHIP UNITS AND RELATED SECURITY HOLDER MATTERS.

As of December 31, 1998, there were 720 holders of record of the registrant's Limited Partnership Units. There is no other class of security outstanding or authorized. The registrant's Units are not a traded security in any market. However, the Partnership may acquire Units from Limited Partners who have tendered their Units to the Partnership. Such Units may be acquired at a discount. The Partnership is not obligated to purchase in any year more than 5% of the total number of Units originally sold. In no event shall the Partnership be obligated to purchase Units if, in the sole discretion of the Managing General Partner, such purchase would impair the capital or operation of the Partnership.

During 1998, seven Limited Partners redeemed a total of 73.30 Partnership Units for $33,738 accordance with the Partnership Agreement. In prior years, a total of seventy-seven Limited Partners redeemed 788.84 Partnership Units for $606,521. The redemptions increase the remaining Limited Partners' ownership interest in the Partnership.

ITEM 5.MARKET FOR THE REGISTRANT'S PARTNERSHIP UNITS AND RELATED SECURITY HOLDER MATTERS. (Continued)

Cash distributions of $3,347 and $7,461 were made to the General Partners and $297,598 and $722,723 were made to the Limited Partners in 1998 and 1997, respectively. The distributions were made on a quarterly basis and represent Net Cash Flow, as defined, except as discussed below. These distributions should not be compared with dividends paid on capital stock by corporations.

As part of the Limited Partner distributions discussed above, the Partnership distributed $400,000 of proceeds from the sale of property in 1997. The distribution reduced the Limited Partners' Adjusted Capital Contributions.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS.

Results of Operations

For the years ended December 31, 1998 and 1997, the Partnership recognized rental income of $468,533 and $515,207, respectively. During the same periods, the Partnership earned investment income of $19,088 and $19,997, respectively. In 1998, rental income decreased as a result of the property sales discussed below and a reduction in percentage rent from two properties.

During the years ended December 31, 1998 and 1997, the Partnership paid Partnership administration expenses to affiliated parties of $107,471 and $96,838, respectively. These administration expenses include costs associated with the

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management of the properties, processing distributions, reporting requirements and correspondence to the Limited Partners. During the same periods, the Partnership incurred Partnership administration and property management expenses from unrelated parties of $19,075 and $(63,439), respectively. These expenses represent direct payments to third parties for legal and filing fees, direct administrative costs, outside audit and accounting costs, taxes, insurance and other property costs. The increase in these expenses in 1998 when compared to 1997, is the result of a reversal of a tax accrual related to the Park Forest property in 1997.

The Fair Muffler property, located in Park Forest, Illinois, is a one-story brick building of approximately 2,450 square feet on a 19,388 square foot parcel of land. It was acquired in August, 1986 subject to a long-term triple net Lease for 20 years. In 1989, the lessee filed for bankruptcy and the Partnership re-leased the property to a Fair Muffler franchisee who had been operating the property as a sublessee. That franchisee continued to operate the property until December, 1996. In January, 1997, it was leased on a month-to-month basis to a car care operator for $2,600 per month.

In 1996, in anticipation of selling the property, the Partnership conducted an environmental soil contamination investigation of the property. The investigation revealed contamination of approximately 2,750 cubic yards exceeding Tier 1 soil migration to Class II groundwater, which will need to be remediated. The contamination has been identified as petroleum constituents and is believed to have been caused by underground storage tanks in place when the property was operated as a gasoline station, prior to the Partnership's ownership.

An estimate for site remediation work, which includes contaminated soil removal, tank removal, soil sampling, backfilling and reporting, of $211,000 was received from an environmental engineering firm. The Partnership has engaged legal counsel to investigate what sources, if any, are available for indemnification of these reclamation costs. In the third quarter of 1996, the Partnership accrued a current liability of $211,000 to remediate the site. It has not been determined when the reclamation work will begin or how long it will take to complete. It is reasonably possible that the actual costs could materially differ from the estimate.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS. (Continued)

The Partnership obtained an independent appraisal of the property which showed a value of $125,000. In the fourth quarter of 1995, a charge to operations for real estate impairment of $116,252 was recognized, which is the difference between book value at December 31, 1995 of $241,252 and the appraised market value of $125,000. The charge was recorded against the carrying amount of the land.

Since 1995, the Partnership has not paid real estate taxes on the Park Forest property while it was unsuccessfully appealing the real estate tax valuation of the property. During this

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period of time the Partnership accrued $128,958 of real estate taxes, of which $86,399 was accrued as of December 31, 1996. In 1997, the taxing authority sold the property for unpaid taxes to an unrelated third party. Since the tax liability exceeded the appraised market value of the property, the Partnership did not redeem the tax sale. Consequently, the Partnership reversed the tax accrual resulting in a $86,399 credit to 1997 expenses. Since the Partnership intended to allow the tax sale to be completed, a charge to operations for an additional real estate impairment of $117,823 was recognized in the third quarter of 1997, to write down the carrying value of the property to zero. The third party who purchased the unpaid taxes has not filed a petition for issuance of the tax deed.

On August 5, 1998, the Partnership sold the Fair Muffler property to the current tenant for $5,000. The sale resulted in a net gain of $704. The Partnership is reviewing its legal obligation for the site liability and may have adjustments to the accrued liability in future periods.

On January 21, 1998, the Cheddar's restaurant was destroyed by fire. The Lessee rebuilt the restaurant and reopened on November 16, 1998. The lessee had adequate insurance coverage to cover the cost of rebuilding and the rental payments in the interim.

As of December 31, 1998, the Partnership's annualized cash distribution rate was 5.0%, based on the Adjusted Capital Contribution. Distributions of Net Cash Flow to the General Partners were subordinated to the Limited Partners as required in the Partnership Agreement. As a result, 99% of distributions and income were allocated to Limited Partners and 1% to the General Partners.

Inflation has had a minimal effect on income from operations. It is expected that increases in sales volumes of the tenants, due to inflation and real sales growth, will result in an increase in rental income over the term of the leases. Inflation also may cause the Partnership's real estate to appreciate in value. However, inflation and changing prices may also have an adverse impact on the operating margins of the properties' tenants which could impair their ability to pay rent and subsequently reduce the Partnership's Net Cash Flow available for distributions.

The Year 2000 issue is the result of computer systems that use two digits rather than four to define the applicable year, which may prevent such systems from accurately processing dates ending in the Year 2000 and beyond. This could result in computer system failures or disruption of operations, including, but not limited to, an inability to process transactions, to send or receive electronic data, or to engage in routine business activities.

AEI Fund Management, Inc. (AEI) performs all management services for the Partnership. In 1998, AEI completed an assessment of its computer hardware and software systems and has replaced or upgraded certain computer hardware and software using

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the assistance of outside vendors. AEI has received written assurance from the equipment and software manufacturers as to Year 2000 compliance. The costs associated with Year 2000 compliance have not been, and are not expected to be, material.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS. (Continued)

The Partnership intends to monitor and communicate with tenants regarding Year 2000 compliance, although there can be no assurance that the systems of the various tenants will be Year 2000 compliant.

Liquidity and Capital Resources

During 1998, the Partnership's cash balances increased $38,300 as the Partnership distributed less cash to the Partners than it generated from operating activities. Net cash provided by operating activities decreased from $390,581 in 1997 to $371,720 in 1998 as a result of a decrease in income and an increase in expenses in 1998 which was partially offset by net timing differences in the collection of payments from the lessees and the payment of expenses.

On February 17, 1997, the Partnership sold the Auto Max property to an unrelated third party. The Partnership received net sale proceeds of $411,993 which resulted in a net gain of $109,147. At the time of sale, the cost and related accumulated depreciation of the property was $388,800 and $85,954, respectively. In April, 1997, the Partnership distributed $404,040 of the net sale proceeds to the Limited and General Partners, which represented a return of capital of $59.31 per Limited Partnership Unit.

The Partnership's primary use of cash flow is distribution and redemption payments to Partners. The Partnership declares its regular quarterly distributions before the end of each quarter and pays the distribution in the first week after the end of each quarter. The Partnership attempts to maintain a stable distribution rate from quarter to quarter. Redemption payments are paid to redeeming Partners in the fourth quarter of each year. In the first three months of 1997, the Partnership made distributions at a 6.27% rate. In April, 1997, the Partnership distributed net sale proceeds of $404,040 to the Partners as a special distribution, which reduced the Limited Partners' Adjusted Capital Contribution. Effective April 1, 1997, the Partnership made distributions at a 5.0% rate on the reduced capital balance, which resulted in regular distributions to the Partners of $325,983 for 1997. During 1998, the Partnership made distributions at a 5.0% rate which resulted in distributions to the Partners of $300,604.

The Partnership may acquire Units from Limited Partners who have tendered their Units to the Partnership. Such Units may be acquired at a discount. The Partnership is not obligated to purchase in any year more than 5% of the number of Units originally sold. In no event shall the Partnership be obligated to purchase Units if, in the sole discretion of the Managing General Partner, such purchase would impair the capital or

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operation of the Partnership.

During 1998, seven Limited Partners redeemed a total of 73.30 Partnership Units for $33,738 in accordance with the Partnership Agreement. The Partnership acquired these Units using Net Cash Flow from operations. In prior years, a total of seventy-seven Limited Partners redeemed 788.84 Partnership Units for $606,521. The redemptions increase the remaining Limited Partners' ownership interest in the Partnership.

The continuing rent payments from the properties, together with the Partnership's cash reserve, should be adequate to fund continuing distributions and meet other Partnership obligations, including those obligations associated with remediation of contaminated soil at the Fair Muffler property located in Park Forest, Illinois, on both a short-term and long-term basis.

ITEM 7. FINANCIAL STATEMENTS.

See accompanying Index to Financial Statements.

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

INDEX TO FINANCIAL STATEMENTS

Report of Independent Auditors

Balance Sheet as of December 31, 1998 and 1997

Statements for the Years Ended December 31, 1998 and 1997:

Income

Cash Flows

Changes in Partners' Capital

Notes to Financial Statements

REPORT OF INDEPENDENT AUDITORS

To the Partners:
AEI Real Estate Fund 85-B Limited Partnership
St. Paul, Minnesota

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We have audited the accompanying balance sheet of AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP (a Minnesota limited partnership) as of December 31, 1998 and 1997 and the related statements of income, cash flows and changes in partners' capital for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements 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 AEI Real Estate Fund 85-B Limited Partnership as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ BOULAY, HEUTMAKER, ZIBELL & CO. P.L.L.P.
Boulay, Heutmaker, Zibell & Co. P.L.L.P.
Certified Public Accountants

Minneapolis, Minnesota
January 27, 1999

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

BALANCE SHEET

DECEMBER 31

ASSETS

	1998	1997
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 371,557	$ 333,257
Receivables	15,227	26,817
Total Current Assets	386,784	360,074
INVESTMENTS IN REAL ESTATE:		
Land	1,446,391	1,446,391
Buildings and Equipment	2,663,897	2,714,725
Accumulated Depreciation	(1,422,454)	(1,404,178)

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Net Investments in Real Estate	2,687,834	2,756,938
Total Assets	$ 3,074,618	$ 3,117,012

LIABILITIES AND PARTNERS' CAPITAL

CURRENT LIABILITIES:		
Payable to AEI Fund Management, Inc.	$ 7,601	$ 8,546
Land Remediation Estimate	211,000	211,000
Distributions Payable	68,770	68,211
Total Current Liabilities	287,371	287,757
PARTNERS' CAPITAL (DEFICIT):		
General Partners	(36,724)	(36,304)
Limited Partners, $1,000 Unit value; 7,500 Units authorized and issued; 6,638 and 6,711 outstanding in 1998 and 1997, respectively	2,823,971	2,865,559
Total Partners' Capital	2,787,247	2,829,255
Total Liabilities and Partners' Capital	$ 3,074,618	$ 3,117,012

The accompanying notes to financial statements are an integral part of this statement.

</PAGE>

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31

	1998	1997
INCOME:		
Rent	$ 468,533	$ 515,207
Investment Income	19,088	19,997
Total Income	487,621	535,204
EXPENSES:		
Partnership Administration - Affiliates	107,471	96,838
Partnership Administration and Property Management - Unrelated Parties	19,075	(63,439)
Depreciation	69,104	75,951
Real Estate Impairment	0	117,823
Total Expenses	195,650	227,173

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	1998	1997
OPERATING INCOME	291,971	308,031
GAIN ON SALE OF REAL ESTATE	704	109,147
NET INCOME	$ 292,675	$ 417,178
NET INCOME ALLOCATED:		
General Partners	$ 2,927	$ 4,172
Limited Partners	289,748	413,006
	$ 292,675	$ 417,178
NET INCOME PER LIMITED PARTNERSHIP UNIT (6,692 and 6,736 weighted average Units outstanding in 1998 and 1997, respectively)	$ 43.30	$ 61.31

The accompanying notes to financial statements are an integral part of this statement.

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AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 292,675	$ 417,178
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:		
Depreciation	69,104	75,951
Real Estate Impairment	0	117,823
Gain on Sale of Real Estate	(704)	(109,147)
(Increase) Decrease in Receivables	11,590	(20,037)
Decrease in Payable to AEI Fund Management, Inc.	(945)	(91,187)
Total Adjustments	79,045	(26,597)
Net Cash Provided By Operating Activities	371,720	390,581
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Real Estate	704	411,993
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Increase (Decrease) in Distributions Payable	559	(23,082)
Distributions to Partners	(300,604)	(730,023)
Redemption Payments	(34,079)	(16,056)
Net Cash Used For Financing Activities	(334,124)	(769,161)
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,300	33,413
CASH AND CASH EQUIVALENTS, beginning of period	333,257	299,844
CASH AND CASH EQUIVALENTS, end of period	$ 371,557	$ 333,257

The accompanying notes to financial statements are an integral part of this statement.

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AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

FOR THE YEARS ENDED DECEMBER 31

	General Partners	Limited Partners	Total	Limited Partnership Units Outstanding
BALANCE, December 31, 1996	$ (33,015)	$ 3,191,171	$ 3,158,156	6,743.96
Distributions	(7,300)	(722,723)	(730,023)	
Redemption Payments	(161)	(15,895)	(16,056)	(33.00)
Net Income	4,172	413,006	417,178	
BALANCE, December 31, 1997	(36,304)	2,865,559	2,829,255	6,710.96
Distributions	(3,006)	(297,598)	(300,604)	
Redemption Payments	(341)	(33,738)	(34,079)	(73.30)
Net Income	2,927	289,748	292,675	
BALANCE, December 31, 1998	$ (36,724)	$ 2,823,971	$ 2,787,247	6,637.66

The accompanying notes to financial statements are an integral part of this statement.

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AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND 1997

(1) Organization -

AEI Real Estate Fund 85-B Limited Partnership (Partnership) was formed to acquire and lease commercial properties to operating tenants. The Partnership's operations are managed by Net Lease Management 85-B, Inc. (NLM), the Managing General Partner of the Partnership. Robert P. Johnson, the President and sole shareholder of NLM, serves as the Individual General Partner of the Partnership. An affiliate of NLM, AEI Fund Management, Inc. (AEI), performs the administrative and operating functions for the Partnership.

The terms of the Partnership offering call for a subscription price of $1,000 per Limited Partnership Unit, payable on acceptance of the offer. The Partnership commenced operations on September 17, 1985 when minimum subscriptions of 1,300 Limited Partnership Units ($1,300,000) were accepted. The Partnership's offering terminated on February 4, 1986 when the maximum subscription limit of 7,500 Limited Partnership Units ($7,500,000) was reached.

Under the terms of the Limited Partnership Agreement, the Limited Partners and General Partners contributed funds of $7,500,000 and $1,000, respectively. During the operation of the Partnership, any Net Cash Flow, as defined, which the General Partners determine to distribute will be distributed 90% to the Limited Partners and 10% to the General Partners; provided, however, that such distributions to the General Partners will be subordinated to the Limited Partners first receiving an annual, noncumulative distribution of Net Cash Flow equal to 10% of their Adjusted Capital Contribution, as defined, and, provided further, that in no event will the General Partners receive less than 1% of such Net Cash Flow per annum. Distributions to Limited Partners will be made pro rata by Units.

Any Net Proceeds of Sale, as defined, from the sale or financing of the Partnership's properties which the General Partners determine to distribute will, after provisions for debts and reserves, be paid in the following manner: (i) first, 99% to the Limited Partners and 1% to the General Partners until the Limited Partners receive an amount equal to: (a) their Adjusted Capital Contribution plus (b) an amount equal to 6% of their Adjusted Capital Contribution per annum, cumulative but not compounded, to the extent not previously distributed from Net Cash Flow; (ii) next, 99% to the Limited Partners and 1% to the General Partners until the Limited Partners receive an amount equal to 14% of their Adjusted Capital Contribution per annum, cumulative but not compounded, to the extent not previously distributed; (iii)

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next, to the General Partners until cumulative distributions to the General Partners under Items (ii) and (iii) equal 15% of cumulative distributions to all Partners under Items (ii) and (iii). Any remaining balance will be distributed 85% to the Limited Partners and 15% to the General Partners. Distributions to the Limited Partners will be made pro rata by Units.

(1) Organization - (Continued)

For tax purposes, profits from operations, other than profits attributable to the sale, exchange, financing, refinancing or other disposition of the Partnership's property, will be allocated first in the same ratio in which, and to the extent, Net Cash Flow is distributed to the Partners for such year. Any additional profits will be allocated 90% to the Limited Partners and 10% to the General Partners. In the event no Net Cash Flow is distributed to the Limited Partners, 90% of each item of Partnership income, gain or credit for each respective year shall be allocated to the Limited Partners, and 10% of each such item shall be allocated to the General Partners. Net losses from operations will be allocated 98% to the Limited Partners and 2% to the General Partners.

For tax purposes, profits arising from the sale, financing, or other disposition of the Partnership's property will be allocated in accordance with the Partnership Agreement as follows: (i) first, to those Partners with deficit balances in their capital accounts in an amount equal to the sum of such deficit balances: (ii) second, 99% to the Limited Partners and 1% to the General Partners until the aggregate balance in the Limited Partners' capital accounts equals the sum of the Limited Partners' Adjusted Capital Contributions plus an amount equal to 14% of their Adjusted Capital Contributions per annum, cumulative but not compounded, to the extent not previously allocated; (iii) third, to the General Partners until cumulative allocations to the General Partners equal 15% of cumulative allocations. Any remaining balance will be allocated 85% to the Limited Partners and 15% to the General Partners. Losses will be allocated 98% to the Limited Partners and 2% to the General Partners.

The General Partners are not required to currently fund a deficit capital balance. Upon liquidation of the Partnership or withdrawal by a General Partner, the General Partners will contribute to the Partnership an amount equal to the lesser of the deficit balances in their capital accounts or 1% of total Limited Partners' and General Partners' capital contributions.

(2) Summary of Significant Accounting Policies -

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Financial Statement Presentation

The accounts of the Partnership are maintained on the accrual basis of accounting for both federal income tax purposes and financial reporting purposes.

Accounting Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

(2) Summary of Significant Accounting Policies - (Continued)

The Partnership regularly assesses whether market events and conditions indicate that it is reasonably possible to recover the carrying amounts of its investments in real estate from future operations and sales. A change in those market events and conditions could have a material effect on the carrying amount of its real estate

Cash Concentrations of Credit Risk

At times throughout the year, the Partnership's cash deposited in financial institutions may exceed FDIC insurance limits.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents may include cash in checking, cash invested in money market accounts, certificates of deposit, federal agency notes and commercial paper with a term of three months or less.

Income Taxes

The income or loss of the Partnership for federal income tax reporting purposes is includable in the income tax returns of the partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements.

The tax return, the qualification of the Partnership as such for tax purposes, and the amount of distributable partnership income or loss are subject to examination by

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federal and state taxing authorities. If such an examination results in changes with respect to the partnership qualification or in changes to distributable partnership income or loss, the taxable income of the partners would be adjusted accordingly.

Real Estate

The Partnership's real estate leases are classified as operating leases. The Partnership recognizes rental revenue on the accrual basis according to the terms of the individual leases. For leases which contain cost of living increases, the increases are recognized in the year in which they are effective.

Real estate is recorded at the lower of cost or estimated net realizable value. The Partnership compares the carrying amount of its properties to the estimated future cash flows expected to result from the property and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the property, the Partnership recognizes an impairment loss by the amount by which the carrying amount of the property exceeds the fair value of the property.

The Partnership has capitalized as Investments in Real Estate certain costs incurred in the review and acquisition of the properties. The costs were allocated to the land, buildings and equipment.

(2) Summary of Significant Accounting Policies - (Continued)

The buildings and equipment of the Partnership are depreciated using the straight-line method for financial reporting purposes based on estimated useful lives of 30 years and 10 years respectively.

(3) Related Party Transactions -

The Partnership owns a 16.3486% interest in the Children's World property. The remaining interest is owned by AEI Real Estate Fund XVI Limited Partnership, an affiliate of the Partnership. Each Partnership owns a separate, undivided interest in the property. No specific agreement or commitment exists between the Partnerships as to the management of their respective interests in the property, and the Partnership that holds more than a 50% interest does not control decisions over the other Partnership's interest. The financial statements reflect only this Partnership's percentage share of the property's land, building and equipment, liabilities, revenues and expenses.

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AEI and NLM received the following compensation and reimbursements for costs and expenses from the Partnership:

	Total Incurred by the Partnership for the Years Ended December 31	
	1998	1997
a. AEI and NLM are reimbursed for all costs incurred in connection with managing the Partnership's operations, maintaining the Partnership's books and communicating the results of operations to the Limited Partners.	$ 107,471	$ 96,838
	========	========
b. AEI and NLM are reimbursed for all direct expenses they have paid on the Partnership's behalf to third parties. These expenses included printing costs, interest, legal and filing fees, direct administrative costs, outside audit and accounting costs, taxes, insurance and other property costs. The 1997 amount includes an $86,399 credit to expenses for real estate taxes accrued in a prior year, as further discussed in Note 4.	$ 19,075	$ (63,439)
	========	========

The payable to AEI Fund Management, Inc. represents the balance due for the services described in 3a and b. This balance is non-interest bearing and unsecured and is to be paid in the normal course of business.

(4) Investments in Real Estate -

The Partnership leases its properties to various tenants through triple net leases, which are classified as operating leases. Under a triple net lease, the lessee is responsible for all real estate taxes, insurance, maintenance, repairs and operating expenses of the property. The Lease terms are 20 years except for the Denny's restaurant (5 years), the All Tune & Lube (10 years). Most of the Leases contain renewal options which may extend the Lease term an additional 10 years. The Leases contain provisions which entitle the Partnership to receive additional rent in future years based on stated rent increases or if gross receipts for the property exceed certain specified amounts, among other conditions. Certain lessees have been granted options to purchase the property. Depending on the lease, the

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purchase price is either determined by a formula, or is the greater of the fair market value of the property or the amount determined by a formula. In all cases, if the option were to be exercised by the lessee, the purchase price would be greater than the original cost of the property.

The Partnership's properties are all commercial, single-tenant properties. The Cheddar's restaurant was constructed in 1985. The Children's World was constructed in 1987. All the remaining buildings were constructed in 1986. The Partnership acquired all the buildings during 1986 except for the Arby's in Colorado Springs, Colorado and the Children's World, which were acquired during 1987. There have been no costs capitalized as improvements subsequent to the acquisitions.

The cost of the properties and related accumulated depreciation at December 31, 1998 are as follows:

Property	Land	Buildings and Equipment	Total	Accumulated Depreciation
Arby's, Jackson, TN	$ 178,733	$ 574,238	$ 752,971	$ 305,204
All Tune & Lube, Merrillville, IN	84,174	220,258	304,432	98,763
Denny's, Fort Worth, TX	525,850	455,914	981,764	228,102
Cheddar's, Fort Wayne, IN	511,427	969,126	1,480,553	552,841
Arby's, Colorado Springs, CO	119,054	328,123	447,177	190,308
Children's World, Sterling Heights, MI	27,153	116,238	143,391	47,236
	$1,446,391	$2,663,897	$4,110,288	$1,422,454

The Fair Muffler property, located in Park Forest, Illinois, is a one-story brick building of approximately 2,450 square feet on a 19,388 square foot parcel of land. It was acquired in August, 1986 subject to a long-term triple net Lease for 20 years. In 1989, the lessee filed for bankruptcy and the Partnership re-leased the property to a Fair Muffler franchisee who had been operating the property as a sublessee. That franchisee continued to operate the property until December, 1996. In January, 1997, it was leased on a month-to-month basis to a car care operator for $2,600 per month.

(4) Investments in Real Estate - (Continued)

In 1996, in anticipation of selling the property, the Partnership conducted an environmental soil contamination investigation of the property. The investigation revealed contamination of approximately 2,750 cubic yards exceeding

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Tier 1 soil migration to Class II groundwater, which will need to be remediated. The contamination has been identified as petroleum constituents and is believed to have been caused by underground storage tanks in place when the property was operated as a gasoline station, prior to the Partnership's ownership.

An estimate for site remediation work, which includes contaminated soil removal, tank removal, soil sampling, backfilling and reporting, of $211,000 was received from an environmental engineering firm. The Partnership has engaged legal counsel to investigate what sources, if any, are available for indemnification of these reclamation costs. In the third quarter of 1996, the Partnership accrued a current liability of $211,000 to remediate the site. It has not been determined when the reclamation work will begin or how long it will take to complete. It is reasonably possible that the actual costs could materially differ from the estimate.

The Partnership obtained an independent appraisal of the property which showed a value of $125,000. In the fourth quarter of 1995, a charge to operations for real estate impairment of $116,252 was recognized, which is the difference between book value at December 31, 1995 of $241,252 and the appraised market value of $125,000. The charge was recorded against the carrying amount of the land.

Since 1995, the Partnership has not paid real estate taxes on the Park Forest property while it was unsuccessfully appealing the real estate tax valuation of the property. During this period of time the Partnership accrued $128,958 of real estate taxes, of which $86,399 was accrued as of December 31, 1996. In 1997, the taxing authority sold the property for unpaid taxes to an unrelated third party. Since the tax liability exceeded the appraised market value of the property, the Partnership did not redeem the tax sale. Consequently, the Partnership reversed the tax accrual resulting in a $86,399 credit to 1997 expenses. Since the Partnership intended to allow the tax sale to be completed, a charge to operations for an additional real estate impairment of $117,823 was recognized in the third quarter of 1997, to write down the carrying value of the property to zero. The third party who purchased the unpaid taxes has not filed a petition for issuance of the tax deed.

On August 5, 1998, the Partnership sold the Fair Muffler property to the current tenant for $5,000. The sale resulted in a net gain of $704. The Partnership is reviewing its legal obligation for the site liability and may have adjustments to the accrued liability in future periods.

On February 17, 1997, the Partnership sold the Auto Max property to an unrelated third party. The Partnership received net sale proceeds of $411,993, which resulted in a net gain of $109,147. At the time of sale, the cost and related accumulated depreciation of the property was

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$388,800 and $85,954, respectively. In April, 1997, the Partnership distributed $404,040 of the net sale proceeds to the Limited and General Partners, which represented a return of capital of $59.31 per Limited Partnership Unit.

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND 1997

(4) Investments in Real Estate - (Continued)

On January 21, 1998, the Cheddar's restaurant was destroyed by fire. The lessee rebuilt the property and reopened on November 16, 1998. The lessee had adequate insurance coverage to cover the cost of rebuilding and the rental payments in the interim.

The minimum future rentals on the Leases for years subsequent to December 31, 1998 are as follows:

1999	$ 429,477
2000	404,658
2001	392,005
2002	350,005
2003	350,005
Thereafter	1,093,160
	$ 3,019,310

In 1998 and 1997, the Partnership recognized contingent rents of $22,588 and $51,067, respectively.

(5) Major Tenants -

The following schedule presents rent revenue from individual tenants, or affiliated groups of tenants, who each contributed more than ten percent of the Partnership's total rent revenue for the years ended December 31:

Tenants	Industry	1998	1997
Phaedra Partners, LTD	Restaurant	$ 192,920	$ 192,920
RTM Acquisition Company, L.L.C.	Restaurant	110,151	112,921
Huntington Restaurants Group, Inc.	Restaurant	50,279	64,004
Aggregate rent revenue of major tenants		$ 353,350	$ 369,845
Aggregate rent revenue of major tenants as a percentage of total rent revenue		75%	72%

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AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND 1997

(6) Partners' Capital -

Cash distributions of $3,347 and $7,461 were made to the General Partners and $297,598 and $722,723 were made to the Limited Partners for the years ended December 31, 1998 and 1997, respectively. The Limited Partners' distributions represent $44.47 and $107.29 per Limited Partnership Unit outstanding using 6,692 and 6,736 weighted average Units in 1998 and 1997, respectively. The distributions represent $38.22 and $58.94 per Unit of Net Income and $6.25 and $48.35 per Unit of return of contributed capital in 1998 and 1997, respectively.

As part of the Limited Partner distributions discussed above, the Partnership distributed $400,000 of proceeds from the sale of property in 1997. The distribution reduced the Limited Partners' Adjusted Capital Contributions.

Distributions of Net Cash Flow to the General Partners during 1998 and 1997 were subordinated to the Limited Partners as required in the Partnership Agreement. As a result, 99% of distributions and income were allocated to the Limited Partners and 1% to the General Partners.

The Partnership may acquire Units from Limited Partners who have tendered their Units to the Partnership. Such Units may be acquired at a discount. The Partnership is not obligated to purchase in any year more than 5% of the number of Units originally sold. In no event shall the Partnership be obligated to purchase Units if, in the sole discretion of the Managing General Partner, such purchase would impair the capital or operation of the Partnership.

During 1998, seven Limited Partners redeemed a total of 73.30 Partnership Units for $33,738 in accordance with the Partnership Agreement. The Partnership acquired these Units using Net Cash Flow from operations. In 1997, five Limited Partners redeemed a total of 33 Partnership Units for $15,895. The redemptions increase the remaining Limited Partners' ownership interest in the Partnership.

After the effect of redemptions and the return of capital from the sale of property, the Adjusted Capital Contribution, as defined in the Partnership Agreement, is $896.59 per original $1,000 invested.

AEI REAL ESTATE FUND 85-B LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

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(7) Income Taxes -

The following is a reconciliation of net income for financial reporting purposes to income reported for federal income tax purposes for the years ended December 31:

	1998	1997
Net Income for Financial Reporting Purposes	$ 292,675	$ 417,178
Depreciation for Tax Purposes Over Depreciation for Financial Reporting Purposes	(28,033)	(24,315)
Income Accrued for Tax Purposes Under Income for Financial Reporting Purposes	0	(11,800)
Real Estate Impairment Loss Not Recognized for Tax Purposes	0	117,823
Loss on Sale of Real Estate For Tax Purposes Over Gain For Financial Reporting Purposes	(216,686)	0
Gain on Sale of Real Estate for Tax Purposes Over Gain for Financial Reporting Purposes	0	24,079
Taxable Income to Partners	$ 47,956	$ 522,965

(7) Income Taxes - (Continued)

The following is a reconciliation of Partners' capital for financial reporting purposes to Partners' capital reported for federal income tax purposes for the years ended December 31:

	1998	1997
Partners' Capital for Financial Reporting Purposes	$ 2,787,247	$ 2,829,255
Adjusted Tax Basis of Investments in Real Estate Over (Under) Net Investments in Real Estate for Financial Reporting Purposes	(157,770)	86,949

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Property Expenses for Tax Purposes Under Expenses for Financial Reporting Purposes	211,000	211,000
Organization and Syndication Costs Treated as Reduction of Capital for Financial Reporting Purposes	1,002,166	1,002,166
Partners' Capital for Tax Reporting Purposes	$ 3,842,643	$ 4,129,370

(8) Fair Value of Financial Instruments -

The estimated fair values of the financial instruments, none of which are held for trading purposes, are as follows for the years ended December 31:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 266	$ 266	$ 321	$ 321
Money Market Funds	371,291	371,291	332,936	332,936
Total Cash and Cash Equivalents	$ 371,557	$ 371,557	$ 333,257	$ 333,257

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The registrant is a limited partnership and has no officers, directors, or direct employees. The General Partners of the registrant are Robert P. Johnson and NLM. The General Partners manage and control the Partnership's affairs and have general responsibility and the ultimate authority in all matters affecting the Partnership's business. The director and officers of NLM are as follows:

Robert P. Johnson, age 54, is Chief Executive Officer, President and Director and has held these positions since the formation of NLM in May, 1985, and has been elected to continue in these positions until December, 1999. From 1970 to the present, he has been employed exclusively in the investment industry, specializing in tax-advantaged limited partnership investments. In that capacity, he has been involved in the

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development, analysis, marketing and management of public and private investment programs investing in net lease properties as well as public and private investment programs investing in energy development. Since 1971, Mr. Johnson has been the president, a director and a registered principal of AEI Securities, Inc. (formerly AEI Incorporated), which is registered with the Securities and Exchange Commission as a securities broker-dealer, is a member of the National Association of Securities Dealers, Inc. (NASD) and is a member of the Security Investors Protection Corporation (SIPC). Mr. Johnson has been president, a director and the principal shareholder of AEI Fund Management, Inc., a real estate management company founded by him, since 1978. Mr. Johnson is currently a general partner or principal of the general partner in seventeen other limited partnerships.

Mark E. Larson, age 46, is Executive Vice President, Treasurer and Chief Financial Officer and has been elected to continue in these positions until December, 1999. Mr. Larson has been Treasurer and Executive Vice President since December, 1987 and Chief Financial Officer since January, 1990. In January, 1993, Mr. Larson was elected to serve as Secretary of NLM and will continue to serve until December, 1999. Mr. Larson has been employed by AEI Fund Management, Inc. and affiliated entities since 1985. From 1979 to 1985, Mr. Larson was with Apache Corporation as manager of Program Accounting responsible for the accounting and reports for approximately 45 public partnerships. Mr. Larson is responsible for supervising the accounting functions of NLM and the registrant.

ITEM 10. EXECUTIVE COMPENSATION.

The General Partner and affiliates are reimbursed at cost for all services performed on behalf of the registrant and for all third party expenses paid on behalf of the registrant. The cost for services performed on behalf of the registrant is actual time spent performing such services plus an overhead burden. These services include organizing the registrant and arranging for the offer and sale of Units, reviewing properties for acquisition and rendering administrative and management services.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth information pertaining to the ownership of the Units by each person known by the Partnership to beneficially own 5% or more of the Units, by each General Partner, and by each officer or director of the Managing General Partner as of February 28, 1999:

Name and Address of Beneficial Owner	Number of Units Held	Percent of Class
Net Lease Management 85-B, Inc. 1300 Minnesota World Trade Center 30 East 7th Street, St. Paul, Minnesota 55101	0	0%
Robert P. Johnson	0	0%

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1300 Minnesota World Trade Center
30 East 7th Street, St. Paul, Minnesota 55101

Mark E. Larson 1300 Minnesota World Trade Center 30 East 7th Street, St. Paul, Minnesota 55101	0	0%

The General Partners know of no holders of more than 5% of the outstanding Units.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The registrant, NLM and its affiliates have common management and utilize the same facilities. As a result, certain administrative expenses are allocated among these related entities. All of such activities and any other transactions involving the affiliates of the General Partner of the registrant are governed by, and are conducted in conformity with, the limitations set forth in the Limited Partnership Agreement of the registrant. Reference is made to Note 3 on Page 19, and is incorporated herein by reference, for details of related party transactions.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K AND 8-K/A.

A. Exhibits -

	Description
27	Financial Data Schedule for year ended December 31, 1998.

B. Reports on Form 8-K and 8-K/A - None.

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.

AEI REAL ESTATE FUND 85-B
Limited Partnership
By: Net Lease Management 85-B, Inc.
Its Managing General Partner

March 12, 1999

By: /s/ Robert P. Johnson
Robert P. Johnson, President and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following

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persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Robert P. Johnson Robert P. Johnson	President (Principal Executive Officer) and Sole Director of Managing General Partner	March 12, 1999
/s/ Mark E. Larson Mark E. Larson	Executive Vice President, Treasurer and Chief Financial Officer (Principal Accounting Officer)	March 12, 1999

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