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# R.E.I.T SUMMARY REPORT

**Real Estate Investment Trusts:**
The prices of most equity and mortgage REIT's have been rising in recent weeks, significantly outperforming the market. In our opinion, conditions remain favorable for real estate and real estate-related financial assets. Perhaps twenty to thirty stocks seem likely to continue to generate well-above-average returns. Of these, we regard four as the most attractive purchases in the field. The four are: Capstead Mortgage, Pennsylvania Real Estate, Tanger Factory Outlet Centers and Washington REIT. A short analysis of each follows.

1. Capstead Mortgage Corporation (CMO - $13.22) is primarily a mortgage REIT, rather than an equity trust. The company invests in real estate related instruments, mainly adjustable rate mortgage bonds which are issued by Fannie Mae (FNM - $76.79) and Freddie Mac (FRE - $68.60) on a leveraged basis. Compared to other mortgage REITS, Capstead's leverage is low. Additionally, the firm does not use derivatives, further lowering financial risks.

   Dividends have declined in recent quarters, primarily reflecting a reduced spread between borrowing costs and mortgage rates. Beyond the next three quarters, however, the benefits of increasing rates on the adjustable rate securities held by Capstead will result in a significant rise in the dividend.

2. Pennsylvania Real Estate Investment Trust (PEI - $37.49) is a large shopping mall owner in the mid-atlantic region. By acquiring six shopping centers from the Rouse company and merging with Crown American during the past year, the firm has become a more diversified entity. Moreover, in our opinion, the outlook is extremely positive for profit margin improvement during the next two or three years. Pennsylvania's ability to borrow at lower rates has been enhanced by the recent transactions. In addition, by selling all of the multifamily buildings owned by PRE (for more than $400 million) management can now concentrate on improving the returns from the 40 shopping malls currently owned, mainly by increasing occupancy rates in the acquired properties.

3. After the acquisition of Chelsea Property Group (CPG - $67.34) by Simon Property Group (SPG - $54.37), Tanger Factory Outlet Centers (SKF - $44.60) will be the only large public company in this segment of the real estate market. Tanger owns (solely and jointly) thirty-seven centers in twenty-three states, totaling over nine million square feet of leasable area. The company's outlets are particularly appealing to tenants as an efficient venue to dispose of excess merchandise.
   The dividend of $2.50 yields more than 5 ½%. Moreover, approximately seventy percent of the dividend is return of capital, enhancing the after-tax yield for taxable portfolios.

4. Washington Real Estate REIT (WRE - $30.82) is a trust invested in a diversified portfolio of sixty eight properties located mainly in the Washington/Baltimore region. Properties include thirty office buildings, eleven retail centers, eighteen industrial and nine multi-family properties. In August, the company acquired a medical facility, increasing its medical office holdings to six buildings.

WRE has increased dividends for thirty-three years in a row. Considering the firm's strong financial condition and particularly efficient management, we expect annual dividend increases to continue for the foreseeable future.

**Analyst's Certification:** I Alan M. Silverman certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. I own Capstead, Pennsylvania, Tanger and Washington REIT.