Alpine Realty Income & Growth Y

Fund Facts	
Symbol	AIGYX
Website	www.alpinefunds.com
Address	Alpine Management & Research, 122 East 42nd Street, 47th Fl., New York, NY 10168
Tel. No.	888-785-5578
Inception	12/29/98
Portfolio	
Total Net Assets *	$174
Avg Mkt Cap ($ Weighted) *	$2,300
Average Price/Earnings Ratio	20.19
Average Price/Book Ratio	1.88
Turnover Ratio	86%
Investment Information	
New Investment	Open
Min Initial Investment	$1,000
Min Subsequent Investment	0.00
Min Initial IRA Investment	$1,000
Risk (Against S&P 500 - 3 Years)	
Alpha	1.4556
Beta	0.1890
R-Squared	0.1182

Returns vs. Lipper Real Estate Fund Index	AIGYX	Index
1 Year (Cum.)	30.45%	34.17%
3 Year (Ann.)	20.78%	16.33%
5 Year (Ann.)	---	12.22%

Returns vs. S&P 500	AIGYX	Index
1 Year (Cum.)	30.45%	20.80%
3 Year (Ann.)	20.78%	-8.34%
5 Year (Ann.)	---	0.53%

Fees and Expenses	
Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.46%
Portfolio Manager	
Robert Gadsden	Sep-99

** millions* *Data through: 10/31/03*

Source: Company Documents; Lipper

Not Your Typical REIT Fund

Styles go in and out of favor, but the returns of the Alpine Realty Income & Growth portfolio have remained pretty tangible like the assets of the companies Bob Gadsden invests in. Since its inception in 1999, the fund is ranked 2nd out of 106 in its peer group and doubled its investors' money. The manager told Ticker how the REIT world delivered both income and growth in a period of record low bond yields and a record long stock market slump.

Q: I see you're a bit overweight in healthcare and lodging, quite overweight in mortgage/finance, and underweight in apartments. What led to this particular asset breakdown?

A: The apartment call was certainly a top-down call. It started probably 18 months to two years ago. We have been underweighted in apartments for almost that long a period. We saw the economy slowing, interest rates dropping, homebuilder activity taking off, and metrics was showing that apartments were really operating at a peak, an all-time high. Apartment owners had terrific pricing power, very high occupancy rates, ability to raise rent significantly. This was about two years ago. We felt that the group was positioned for a fall. And I think a lot of it helps from being involved in the homebuilding sector as much as we are with our other fund, the Alpine U.S. Real Estate Fund, tracking the homebuilders, see their activity. And we saw that in markets where new supply may impact the existing apartment companies' portfolios, they were going to experience tough times. That really has played out. I don't think the apartment fundamentals have turned significantly up yet. And they may be bottoming, but they are still faced with very similar circumstances as they had in the past years.

Q: So even if you're underweight in apartments, you still found some companies there worth holding. Which companies you did like, instead of being completely out of the group?

A: Within that percentage that you're seeing, there are holdings that are preferred stocks of companies. We've been fairly conservative even in that. The preferred stocks have been steady performers for us, and a good way to play, but in terms of holdings in the group, we have very low positions in some of the larger apartment owners. We own some Archstone-Smith. We like the market that Archstone is in. At the same time we don't think it is an extraordinary value play if you consider our normal model, but we do like the markets that they're in on the West Coast and the D.C. metro area in particular.

Q: What about the retail REITs? Maybe we should exclude Chelsea Property from that list, because it's a pretty buzz stock.

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A: It is an interesting thing about Chelsea. Chelsea is something that really was a value stock at one point in time. We started buying Chelsea in this fund back in March of 1999, when it was trading between $13 and $15 a share.

Q: And just because it appreciated so much over time, it is now such a large position?

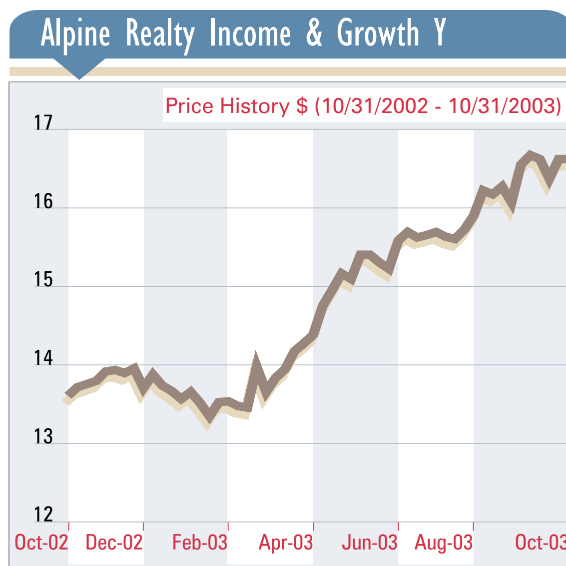
A: No, we've added to it along the way. It has had one of the best growth rates out of any of the REITs out there, steady growth rates. It has a fantastic management team, great assets. The management team has been conservative, they have a very conservative balance sheet. When they enter into new developments, they approach it very conservatively and have the properties well leased even before they start construction. They look for an opportunistic way to grow their franchise, they have been a consolidator in the group and they are the No. 1 outlet mall company in the U.S. and the world at this point in time. They've got a good brand, they used that brand to go into Japan and form a venture, and are now in the process of doing their fourth outlet mall over in Japan.

Yes, a real great company, but the outlet mall sector, even the regional malls, back in 1999 were completely out of favor, because there was the perceived threat of Internet retailing.

Q: So, you can always find such value steals, if you look hard enough?

A: We really at times are a value shopper, and at other times finding the kind of values we are talking about is difficult. We are able to uncover them, but it certainly is not like it was in 1999 or 2000. The market is delivering extraordinary returns. It had a great appreciation this year. If you look at the estimates at where these companies are trading on a net asset value basis, it is hard to find a lot of companies that are trading at a significant discount to their underlying value at this point in time.

As you mentioned before, we had a little overweighting in the hotel group, we really felt that the hotel group was really a kind of a double whammy - the economy slowed down, and business travel, and the 9/11, and the Iraqi war. A lot of things really crushed the operational aspects of the hotel group down to a point. So, our No. 3 holding is the La Quinta preferred A, it has been a top ten holding for quite a while. That was one of our first entries into it. I think we bought 100,000 shares of La Quinta common under $3 in March of this year. And La Quinta worked out a good plan, and the stock has rebounded nicely. We still think that it has legs, and we feel it is significantly undervalued even at these levels, even if it has gone up about 48% on the year and more than doubled since we bought it. I wish all of our shares were at $3, but they weren't.



The difference with Chelsea is that at the end of the day Chelsea had some very high quality assets. In many places they have the premier centers. La Quinta has competition from other similarly priced types. So, I don't think it ever really parallels in that regard the Chelsea situation but from an investor's standpoint it has similar characteristics.

Q: Let's go back to the retail. It still occupies about a quarter of your portfolio. Everybody is talking about retail REITs being the hottest REITs and you still maintain about a quarter of your assets in retail. Where do you find value there?

A: I think that is a case where we're not finding the kinds of deep discount values in terms of the stocks we're finding in some other areas, but on a relative basis we found it attractive. We had quite a good weighting in regional malls for quite a period of time. The issues, that affected Chelsea back in the late 1990s and early 2000 with the Internet retailing, also affected the regional malls in a very big way. So, we started buying shares back then and we added to them. We make a distinction to what our retail holdings are. We don't have many holdings at all in strip retail, or neighborhood and community centers, mostly in regional malls and, of course, Chelsea.

The reason we think that the neighborhood and community centers have gotten significantly overvalued and attracted investments from the institutional standpoint, the pension fund standpoint, is because traditionally they have been fairly defensive. Grocery center, drugstore, and a bunch of inline stores in the neighborhoods. And you may not get much cash flow growth out of that center, but it is well located, and is able to grow its income maybe at 1.5%-2%. That has been good enough for a lot of institutional investors. But we don't like them. We feel that in many parts of the country those formats aren't as defensive as they traditionally were, primarily because there has been a number of new and different retailing concepts that have occurred over the last 10 years, and primarily the entry of discounters and others like Wal-Mart into that space. Also, they are a lot more vulnerable to new supply than a regional mall. It takes a long, long time to get a permit to land and everything else to set up a regional mall. There isn't that much room in the market area for a regional mall, but there seem to be an endless

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supply of new strip centers with available land.

Q: What about your mortgage/finance position? That is usually a short-term, cyclical play, tied to the interest-rate environment. What did you find there?

A: I think when you look at the weightings that we have in that arena, first we have to take out iStar. Note that iStar is not really in the bill of companies that are normal mortgage REIT companies. Because the majority of the mortgage REIT companies' business model is geared either towards generating residential mortgages or buying residential mortgage-backed paper using leverage and benefiting on the spread to create a higher return of equity for their shareholders. So, we have to take SFI out of there, because their business is providing financing solutions to commercial property owners. So, depending on where we are, where the curve is, they are able to structure something that meets the needs of those property owners. As interest rates move up and owners of commercial properties have to look for other means to underwrite leverage that they need on their properties, these guys can step in and create quasi-equity pieces for themselves. And the important thing is that we believe in their underwriting and their management team. They have a great business model, but they have the brainpower to stand behind their business model.

As for the timing, I think you are right. We have to go back in our financial statements, but probably 18 months ago we had a number of holdings across the mortgage REIT area. Primarily, because we did see it as a moment in time where with rates dropping refinancing activity booming, these companies had great opportunity to buy mortgage-backed paper and finance it very cheaply. There wasn't as much risk in the system as we perceive today. We actually got out of most of the mortgage finance companies that we were in about this time last year.

Q: REITs are still far from being well understood. So, for a REIT advisor or a REIT investor subsequently, it is very important to know what pitfalls are there. Have you had an investment that went wrong somehow?

A: Not a name in particular, but I would say from our value orientation, we were vulnerable to events that were, I'll call them external events, in the hotel space. We had hotel investments that did not perform well. And that can happen. As in any other sector, even at the time of buying those at initial purchase, we believed they had both good absolute value and good relative value towards other securities, but they were in a sense much more vulnerable to external events than some of the other assets.

I think another aspect is that perhaps it is now time to recognize that real estate securities are a bundle of goods and not just a yield story. Because in a yield story, people just lose track of what the underlying value of the assets is. For instance, this is a simple example - if a stock had a $2 dividend and was trading at a 7% yield - that was a great yield, and so the stock at $29 5/8 was good, but at that time the $29 5/8 maybe was fair value for the underlying real estate and growth prospects for the company. But in an environment where yield is so scarce and difficult, you can move that yield down to 6% and it still seems like it's a very attractive yield level, when you look across all the other alternatives. But then you've moved up the price and you may be overpaying for the underlying paper. If you put too much of your weighting in a fixed income instrument, then you're going to be subject to what happens with the fixed income instrument, when interest rates move in a way that you don't like.

One way that we really guard against the types of shocks is we try very hard to be disciplined about not buying things at huge premiums to the underlying value of the assets. And we think that over the long haul, the value approach in real estate is the right fit.

I think the risk at this moment is that the market in search of yield has not been that discriminating. The tide has raised a lot of boats based on their relative yield and the scarcity really of the stock paper for these companies. Some of the companies deserve perhaps the premium that they have, another ones shouldn't be there at all. ▮

Alexander Vantchev

About Robert Gadsden:

Prior to joining Alpine in 1999, Robert Gadsden was a Vice President of the Prudential Realty Group. During the final years of his tenure at Prudential, he held responsibility for negotiating and structuring approximately $1 billion of real estate securities transactions with public and private real estate companies. Prior to that, he served as Head Underwriter of the Real Estate Equity Group, and in various positions within the real estate debt and asset management functions. Before joining Prudential in 1990, he was an Associate in the real estate advisory group of The Leggat McCall Companies in Boston, Mass.

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