To the Editor:

I have just finished reading your articles regarding publicly owned real estate companies, which were most interesting and perceptive. This is a story that needed to be told.

An item fully as important as the lack of quantitative coverage of dividends may well turn out to be the dubious quality of the income of many of these companies. Whereas it is somewhat difficult in many cases to determine this quality, there are certain known instances which literally shout for disclosure, and I think there is reason to believe that continued probing would develop still more instances.

To give you an example of the sort of thing I have in mind, let me cite two instances, to which you referred, from the Kratter Corp. prospectus of 1961, prepared in connection with the debenture issue which never materialized:

1. On page 50 of the "red herring" prospectus, reference is made to 140,000 containers under lease to F. & M. Schafer Brewing Co. These containers were purchased by a joint venture in August 1958, for $2,800,000 and immediately net leased back to the brewery for five years at $710,000 annually. What this really amounted to, of course, was a financing transaction for the brewing company. However, the impression the public stockholder gets is that this $710,000, comingled with other operating income from real estate, has the same quality and expected longevity that might be expected from a first-class office building. Therefore, if the casual stockholder takes the $710,000 and capitalizes it at 9%, he immediately attributes a value of almost $8 million to something which initially only had a value of $2,800,000 and whose value is declining at an extreme rate. Various brokerage offices have issued reports involving just this sort of valuation. This would appear to be trading upon the lower level of intelligence in Wall Street.

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WARREN E. BUFFETT
Genl. Ptr.
Buffett Partnership, Ltd.
Omaha, Nebr.

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