

HEALTH CARE REIT, INC.

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Health Care REIT, Inc. (the “Company”) is a self-administered real estate investment trust that invests in health care facilities, primarily nursing homes, assisted living facilities and retirement centers. The Company also invests in specialty care facilities. As of December 31, 1997, long-term care facilities, which include nursing homes, assisted living facilities and retirement centers, comprised approximately 86% of the investment portfolio. Founded in 1970, the Company was the first real estate investment trust to invest exclusively in health care facilities.

As of December 31, 1997, the Company had \$733,509,000 of real estate investments, inclusive of credit enhancements, in 183 facilities located in 29 states and managed by 49 different operators. At that date, the portfolio included 116 assisted living facilities, 49 nursing homes, 10 retirement centers, six specialty care facilities, and two behavioral care facilities.

1997 ANNUAL REPORT

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\$5,794,000 charge for the settlement of the management contract, an expense associated with the merger of the Company’s advisor into the Company.

The provision for depreciation for the year ended December 31, 1996, totaled \$2,427,000, an increase of \$848,000 over the year ended 1995 as a result of additional operating lease investments.

Interest expense for the year ended December 31, 1996, was \$14,635,000 compared to \$12,752,000 for the year ended December 31, 1995. The increase in interest expense during 1996 was primarily due to the issuance of \$30,000,000 Senior Notes in April 1996 and higher average borrowings under the Company’s line of credit arrangements, which were offset by lower interest rates.

General and administrative expense for the year ended December 31, 1996 totaled \$4,448,000 as compared to \$5,284,000 for the year ended December 31, 1995. The expenses for the year ended December 31, 1996 were 8.18% of revenues as compared to 11.85% for the year ended December 31, 1995.

During 1996 the Company stated its intention to systematically eliminate its investments in behavioral care facilities. As a result, at September 30, 1996, the Company declared a disposition of investment associated with its behavioral care portfolio. As a result, any gains realized through the repayment or sale of investments associated with the Company’s behavioral care facilities were added to the Company’s general allowance for losses and applied against any losses incurred through the repayment or sale of behavioral care related investments. During the year ended December 31, 1996, the Company recorded an \$808,000 disposition of investment expense as an offset to an \$808,000 prepayment fee received from the repayment of two behavioral care related mortgage loans. Additionally, the Company’s general allowance for losses was reduced by \$481,000, resulting from the repayment of these loans.

As a result of the various factors mentioned above, net income for the year ended December 31, 1996, was \$30,676,000 as compared to \$13,635,000 for the year ended December 31, 1995. Net income per share for the year ended December 31, 1996, was \$2.17 versus \$1.16

for the year ended December 31, 1995. The per share increase resulted from an increase in net income offset by an increase in average shares outstanding during 1996. All per share amounts represent diluted earnings per share.

Impact of Inflation

During the past three years, inflation has not significantly affected the earnings of the Company because of the moderate inflation rate. Additionally, earnings of the Company are primarily long-term investments with fixed interest rates. These investments are mainly financed with a combination of equity, senior notes and borrowings under the revolving lines of credit. During inflationary periods, which generally are accompanied by rising interest rates, the Company’s ability to grow may be adversely affected because the yield on new investments may increase at a slower rate than new borrowing costs. Presuming the current inflation rate remains moderate and long-term interest rates do not increase significantly, the Company believes that equity and debt financing will continue to be available.

Other Information

This document and supporting schedules may contain “forward-looking” statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause the Company’s actual results in the future to differ materially from expected results. These risks and uncertainties include, among others, competition in the financing of health care facilities, the availability of capital, and regulatory and other changes in the health care sector, as described in the Company’s filings with the Securities and Exchange Commission.

The Company has assessed its current computer software for proper functioning with respect to dates in the year 2000 and thereafter. The year 2000 issue and related costs are not expected to have a material impact on the operations of the Company.

The following selected financial data for the five years ended December 31, 1997 are derived from the audited consolidated financial statements of the Company.

<i>In thousands, except per share data</i>	1997	Year Ended December 31,			
		1996	1995	1994	1993
Operating Data					
Revenues	\$ 73,308	\$ 54,402	\$ 44,596	\$ 42,732	\$ 36,018
Expenses:					
Interest expense	15,365	14,635	12,752	9,684	10,817
Provision for depreciation	5,287	2,427	1,580	1,385	790
General and administrative and other expenses (1)	6,178	6,664	10,835	6,710	4,356
Settlement of management contract (2)	—	—	5,794	—	—
Total expenses	26,830	23,726	30,961	17,779	15,963
Net income	\$ 46,478	\$ 30,676	\$ 13,635	\$ 24,953	\$ 20,055

Other Data					
Average number of shares outstanding (3):					
Basic	21,594	14,093	11,710	11,519	9,339
Diluted	21,929	14,150	11,728	11,548	9,373
Cash available for distribution (4)	\$ 56,856	\$ 36,705	\$ 27,938	\$ 31,697	\$ 22,780

Per Share					
Net income (3):					
Basic	\$ 2.15	\$ 2.18	\$ 1.16	\$ 2.17	\$ 2.15
Diluted	2.12	2.17	1.16	2.16	2.14
Cash distributions	2.11	2.08	2.075	2.01	1.93

<i>In thousands</i>	1997	December 31,			
		1996	1995	1994	1993
Balance Sheet Data					
Real estate investments, net	\$713,557	\$512,894	\$351,924	\$318,433	\$276,858
Total assets	734,327	519,831	358,092	324,102	285,024
Total debt	249,070	184,395	162,760	128,273	96,311
Total liabilities	264,403	194,295	170,494	134,922	100,892
Total shareholders’ equity	469,924	325,536	187,598	189,180	184,132

(1) General and administrative and other expenses include loan expense, management fees through November 30, 1995, provision for losses, expenses related to disposition of investments and other operating expenses.

(2) On November 30, 1995, the Company’s advisor merged into the Company. Consideration for this transaction totaled approximately \$5,048,000 which was solely comprised of 282,407 Shares. In addition, the Company acquired approximately \$46,000 in net assets and incurred approximately \$792,000 of related transaction expenses. The consideration, plus related transaction expenses, were accounted for as a settlement of a management contract.

(3) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements.

(4) Cash available for distribution is defined as net cash provided from operating activities, but does not consider the effects of changes in operating assets and liabilities such as other receivables and accrued expenses. The Company uses cash available for distribution in evaluating investments and the Company’s operating performance. Cash available for distribution does not represent cash generated from operating activities in accordance with generally accepted accounting principles, is not necessarily indicative of cash available to fund cash needs, and should not be considered as an alternative to net income as an indicator of the Company’s operating performance or as an alternative to cash flow as a measure of liquidity.

In last year’s letter to shareholders, I described 1996 as a year of many accomplishments with much yet to do. I am pleased to report that 1997 was another very successful year as we executed our business plan and improved virtually every aspect of the Company and its performance.

A top priority in 1997 was the reduction of our capital costs. A critical step in that process was the successful “unsecuring” of our balance sheet which we achieved by entering into a new unsecured \$175 million line of credit and converting our \$82 million of senior notes to unsecured status. This was followed by an \$80 million public offering of notes — our first public debt offering.

This capital restructuring positioned us to pursue investment grade debt ratings from Moody’s Investor Services and Standard & Poor’s. In July 1997, we received a rating of ‘Ba1’ with a positive outlook from Moody’s and in February 1998, the rating was confirmed. In February 1998, Standard & Poor’s issued an investment grade rating of ‘BBB-’. The successful completion of the investment grade rating process should substantially improve our access to, and cost of, capital.

The driver of the Company’s success has been an investment strategy that focuses on providing “growth capital to emerging chains.” We establish relationships with emerging health care companies and provide financing throughout their growth cycles. By supporting experienced, venture backed management teams with significant growth

Results of Operations December 31, 1997 vs. December 31, 1996

Revenues for the year ended December 31, 1997 were \$73,308,000 compared to \$54,402,000 for the year ended December 31, 1996, an increase of \$18,906,000 or 35%. Revenue growth resulted primarily from increased operating lease income of \$12,330,000, interest income of \$9,264,000, and loan and commitment fees of \$429,000 from additional real estate investments made during the past twelve to fifteen months.

The growth in interest and rental income for the year ended December 31, 1997 was offset by prepayment fees and gains on the exercise of purchase options earned during 1996, which totaled \$3,059,000 and \$576,000 respectively, as compared with prepayment fees of \$529,000 earned during 1997.

Expenses for the year ended December 31, 1997, totaled \$26,830,000, an increase of \$3,104,000 from expenses of \$23,726,000 for the year ended December 31, 1996. The increase in total expenses for the year ended December 31, 1997 was primarily related to an increase in interest expense, additional expense associated with the provision for depreciation, and an increase in general and administrative expenses. Expenses for the year ended December 31, 1996 were negatively influenced by an \$808,000 disposition of investment expense associated with the Company’s elimination of certain investments in behavioral care facilities.

Interest expense for the year ended December 31, 1997 was \$15,365,000 compared with \$14,635,000 for the year ended December 31, 1996. The increase in interest expense during 1997 was primarily due to the issuance of \$80,000,000 Senior Notes in April 1997. The increase in the 1997 period was offset by the amount of capitalized interest recorded in 1997.

The Company capitalizes certain interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company’s cost of financing. The Company’s interest expense is reduced by the amount

capitalized. Capitalized interest for the year ended December 31, 1997 totaled \$2,306,000, as compared with \$287,000 for the same period in 1996.

The provision for depreciation for the year ended December 31, 1997 totaled \$5,287,000, an increase of \$2,860,000 over the year ended 1996 as a result of additional operating lease investments.

General and administrative expense for the year ended December 31, 1997 totaled \$4,858,000 as compared with \$4,448,000 for the year ended December 31, 1996. The expenses for the year ended December 31, 1997 were 6.63% of revenues as compared with 8.18% for the year ended December 31, 1996.

As a result of the various factors mentioned above, net income for the year ended December 31, 1997 was \$46,478,000, or \$2.12 per share, as compared with \$30,676,000, or \$2.17 per share for the year ended December 31, 1996. Net income for the year ended December 31, 1996 included \$3,635,000, or \$0.26 per share, of prepayment fees and gains on the exercise of purchase options, as compared with \$529,000, or \$0.02 per share, for the year ended December 31, 1997. All per share amounts represent diluted earnings per share.

Results of Operations December 31, 1996 vs. December 31, 1995

Revenues for the year ended December 31, 1996, were \$54,402,000 compared to \$44,596,000 for the year ended December 31, 1995, an increase of \$9,806,000 or 22%. Revenue growth resulted primarily from increased interest income of \$5,457,000, operating lease income of \$3,496,000 and loan and commitment fees of \$941,000 resulting primarily from additional real estate investments made during the past twelve to fifteen months.

Expenses for the year ended December 31, 1996, totaled \$23,726,000, a decrease of \$7,235,000 from expenses of \$30,961,000 for the year ended December 31, 1995. Expenses for the year ended December 31, 1995, were negatively influenced by nonrecurring charges, primarily related to a \$4,800,000 provision for losses and a

Liquidity and Capital Resources

At December 31, 1997, the Company's net real estate investments totaled approximately \$713,557,000, which included 116 assisted living facilities, 49 nursing facilities, 10 retirement centers, six specialty care facilities and two behavioral care facilities. The Company funds its investments through a combination of long-term and short-term financing, utilizing both debt and equity.

During 1997, the Company provided permanent mortgage financings of \$46,231,000, invested \$66,779,000 in operating leases, made construction advances of \$144,672,000, and funded \$4,964,000 of equity related investments. During 1997, the Company received principal payments on real estate mortgages of \$8,487,000, net draws on working capital loans of \$1,529,000 and proceeds of \$41,263,000 from the prepayment of mortgage loans.

During 1997, eight of the above-mentioned construction projects completed the construction phase of the Company's investment process and were converted to investments in operating leases, with an aggregate investment of \$37,664,000, and 14 construction loans converted to permanent mortgage loans with an aggregate investment balance of \$104,173,000.

As of December 31, 1997, the Company had shareholders' equity of \$469,924,000 and a total outstanding debt balance of \$249,070,000, which represents a debt to equity ratio of 0.53 to 1.0.

In January 1997, in connection with the underwriters' exercise of an over allotment option associated with the Company's December 18, 1996 offering of 2,200,000 shares of common stock, the Company issued 330,000 shares of Common Stock, \$1.00 par value per share, at the price of \$23.875 per share, which generated net proceeds of \$7,485,000 to the Company.

In March 1997, the Company issued 3,150,000 shares of Common Stock, \$1.00 par value per share, at the price of \$24.375 per share, which generated net proceeds to the Company of \$72,261,000.

In March 1997, the Company closed a \$175 million unsecured credit facility which replaced the Company's then existing secured credit facility. Simultaneous with the closing of the new credit facility, all senior noteholders released collateral which had served as security for the Company's then outstanding \$82 million of senior indebtedness.

In April 1997, the Company completed the sale of \$80 million of Senior Unsecured Notes. The Company priced \$20 million of notes due 2000, \$20 million of notes due 2002 and \$40 million of notes due 2004. The notes have a weighted average interest rate of 7.91%.

In October 1997, the Company issued 2,085,500 shares of Common Stock, \$1.00 par value per share, at the price of \$26.625 per share, which generated net proceeds to the Company of \$52,963,000.

As of December 31, 1997, the Company had an unsecured revolving line of credit expiring March 31, 2000 in the amount of \$175,000,000 bearing interest at the lender's prime rate or LIBOR plus 1.125%. In addition, the Company had an unsecured revolving line of credit in the amount of \$10,000,000 bearing interest at the lenders' prime rate expiring January 31, 1999. At December 31, 1997, under the Company's line of credit arrangements, available funding totaled \$106,600,000.

As of February 5, 1998, the Company has effective shelf registrations on file with the Securities and Exchange Commission under which the Company may issue up to \$641,269,000 of securities including debt, convertible debt, common and preferred stock. The Company anticipates issuing securities under such shelf registrations to invest in additional health care facilities and to repay borrowings under the Company's line of credit arrangements.

As of December 31, 1997, the Company had approximately \$275,017,000 in unfunded commitments. The Company believes its liquidity and various sources of available capital are sufficient to fund operations, finance future investments, and meet debt service and dividend requirements.



George L. Chapman
*Chairman,
Chief Executive Officer
and President*



**Life Care Center of
Coeur d'Alene
Coeur d'Alene, Idaho**

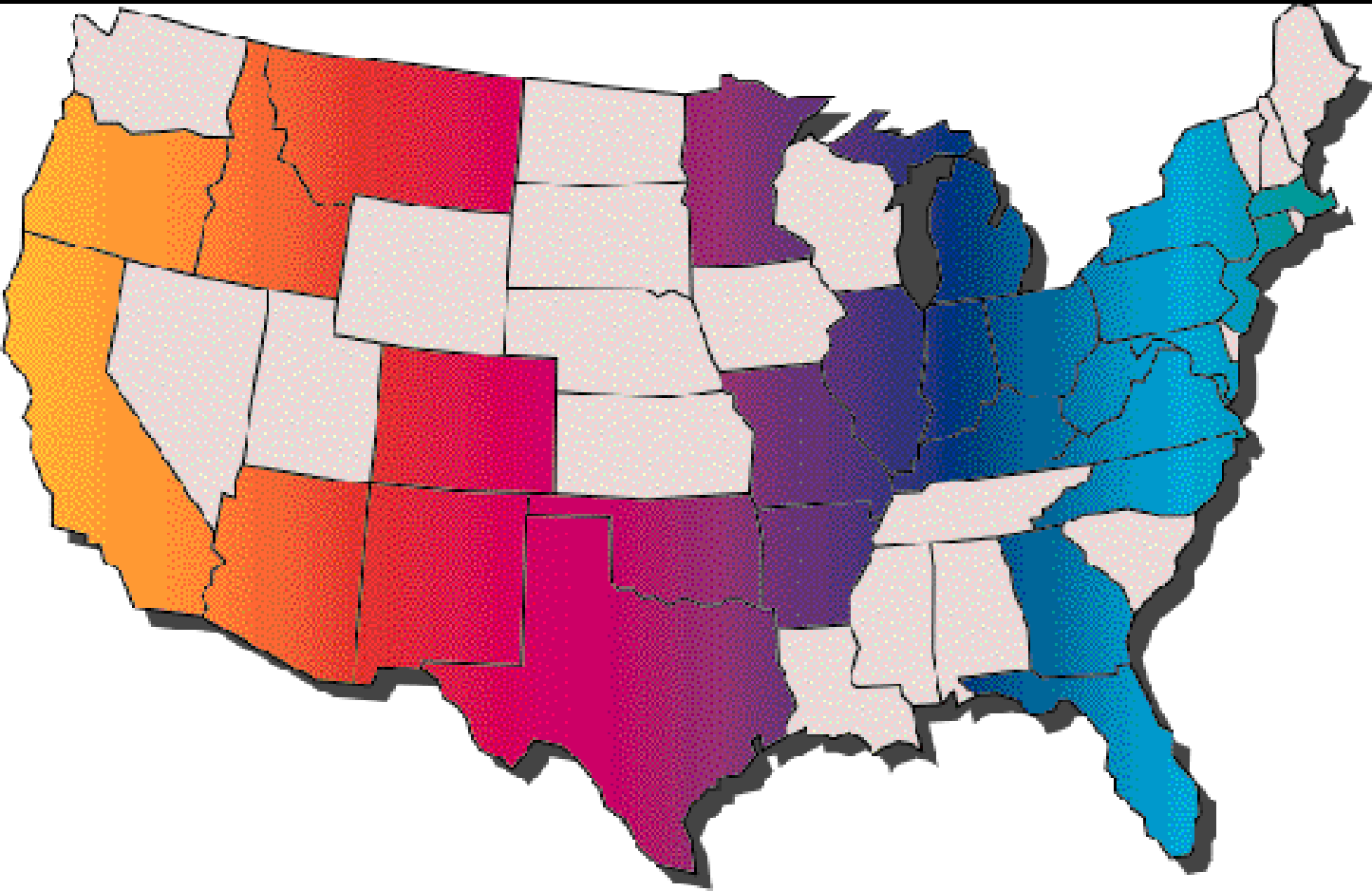
*Life Care Centers of
America, Inc.*

potential, we have grown a portfolio with an increasing percentage of real estate investments operated by substantial public and venture backed companies. The resulting strengthened portfolio characteristics have played an important role in driving down our capital costs.

Our investment strategy led to a record level of investments in 1997 (\$262.6 million) and a 41% asset growth. With 44% public operators, 41% operating leases and an average portfolio life of nine years, the Company has a strong, stable investment portfolio. With a backlog of over \$250 million entering 1998, the Company's investment growth should continue and deliver the excellent, predictable financial results that flow from these investments.

Our portfolio philosophy is customer focused with considerable attention paid to the operator's business plan and the strength of its management group. We believe our commitment to customers justifies sharing in the operator's enterprise value as the customer successfully implements its business plan. The investment in real property affords us an opportunity to share in the facility's appreciation in value. We have also been granted warrants, options or equivalent equity features that permit us to more directly share in the operator's enterprise value. Recently, in a small number of cases, we have made cash investments in our customers' enterprise. These equity features are a natural extension of our "growth capital" investment strategy, assist us in finalizing long-term relationships, and provide a reward more appropriate to our commitment of knowledge, time and resources.

116	ASSISTED LIVING FACILITIES
49	NURSING HOMES
10	RETIREMENT CENTERS
6	SPECIALTY CARE FACILITIES
2	BEHAVIORAL CARE FACILITIES
183	TOTAL NUMBER OF FACILITIES



STATES IN WHICH HEALTH CARE REIT, INC. HAS FACILITIES

Portfolio Review

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The following table summarizes certain information about Health Care REIT, Inc.'s portfolio as of December 31, 1997 (in thousands).

REAL PROPERTY OWNED:	Number of Facilities	Year(s) Built	Year(s) Acquired	Gross Amount at Which Carried at Close of Period			
				Land	Building & Improvements	Total	Accumulated Depreciation
Nursing Homes:							
Arizona	1	1985	1990	\$ 275	\$ 3,149	\$ 3,424	\$ 1,148
Connecticut	1	1975	1993	937	9,563	10,500	1,168
Kentucky	1	1967	1993	130	4,870	5,000	512
Massachusetts	7	1961-1982	1995-1997	3,548	32,598	36,146	1,023
Ohio	1	1983	1989	215	3,367	3,582	397
Pennsylvania	1	1959	1993	285	6,315	6,600	1,053
Texas	1	1978	1993	662	12,587	13,249	1,653
Construction in Progress	1				933	933	
	14			6,052	73,382	79,434	6,954
Assisted Living Facilities:							
Florida	8	1988-1997	1996-1997	1,627	17,929	19,556	408
Idaho	1	1997	1997	200	2,500	2,700	31
New Jersey	1	1993	1996	3,297	14,233	17,530	343
New Mexico	1	1996	1997	233	5,355	5,588	7
New York	1	1997	1997	400	10,528	10,928	13
North Carolina	4	1983-1997	1993-1997	727	8,253	8,980	408
Ohio	3	1985-1997	1997	2,128	14,072	16,200	341
Oklahoma	15	1995-1996	1994-1996	1,703	21,407	23,110	995
Pennsylvania	3	1989-1995	1996-1997	1,388	19,116	20,504	758
Texas	18	1984-1997	1992-1997	4,303	48,894	53,197	907
Virginia	3	1987-1988	1993	387	4,813	5,200	604
Construction in Progress	21				45,561	45,561	
	79			16,393	212,661	229,054	4,815
Retirement Centers:							
Construction in Progress	1				556	556	
Total Real Property Owned	94			\$22,445	\$286,599	\$309,044	\$ 11,769
MORTGAGE AND CONSTRUCTION LOANS RECEIVABLE:							
	Number of Facilities	Interest Rate	Maturity Dates	Periodic Payment Terms	Face Amount	Carrying Value	
Nursing Homes:							
Arizona	2	11.05% to 11.29%	2006-2011	Monthly Principal & Interest	\$ 14,737	\$ 14,684	
California	1	11.47%	2009	Monthly Principal & Interest	3,888	3,872	
Colorado	1	10.71%	2002	Monthly Principal & Interest	6,400	6,346	
Connecticut	1	10.88%	2008	Monthly Principal & Interest	5,850	5,624	
Florida	2	10.51% to 13.24%	2014-2015	Monthly Principal & Interest	9,380	9,332	
Idaho	3	10.88% to 10.99%	2010-2016	Monthly Principal & Interest	20,167	19,857	
Massachusetts	4	9.98% to 10.74%	2010-2017	Monthly Principal & Interest	31,454	31,245	
Michigan	2	12.00% to 12.29%	2002-2008	Monthly Principal & Interest	5,005	4,735	
Missouri	2	10.75% to 10.81%	2009	Monthly Principal & Interest	9,908	9,873	
New York	1	10.88%	2016	Monthly Principal & Interest	7,580	7,354	
Ohio	5	10.94% to 12.19%	2008-2012	Monthly Principal & Interest	19,093	18,859	
Oregon	1	10.94%	2009	Monthly Principal & Interest	5,350	5,306	
Pennsylvania	1	12.31%	2008	Monthly Principal & Interest	7,400	7,329	
Texas	6	10.66%	2007	Monthly Principal & Interest	12,198	8,271	
	32				158,410	152,687	
Assisted Living Facilities:							
Florida	4	10.76% to 11.27%	2009-2016	Monthly Principal & Interest	13,388	13,329	
Georgia	2	12.00%	2007	Monthly Interest Only	21,672	5,313	
New Mexico	1	10.29%	2015	Monthly Principal & Interest	2,500	2,487	
New York	4	10.11% to 11.03%	2016	Monthly Principal & Interest	31,185	31,054	
North Carolina	8	10.15% to 12.00%	2007-2017	Monthly Interest Only	24,293	14,476	
Pennsylvania	1	11.32%	2011	Monthly Interest Only	7,172	7,172	
Texas	14	10.38% to 12.00%	2007-2011	Monthly Interest Only	55,388	43,743	
Virginia	1	10.66%	2010	Monthly Principal & Interest	4,810	4,796	
	35				160,408	122,370	
Retirement Centers:							
Arizona	1	12.50%	2007	Monthly Principal & Interest	2,500	2,396	
California	1	12.50%	2007	Monthly Principal & Interest	2,500	2,396	
Indiana	1	10.64%	1999	Monthly Principal & Interest	1,850	1,945	
North Carolina	2	9.96% to 12.00%	1999-2017	Monthly Principal & Interest	17,500	16,091	
Texas	1	10.59%	2016	Monthly Interest Only	4,536	4,536	
	6				28,886	27,364	
Specialty Care Facilities:							
Arkansas	1	11.54%	2012	Monthly Interest Only	29,000	29,000	
California	2	11.78% to 12.12%	2015-2016	Monthly Principal & Interest	32,500	32,149	
Minnesota	1	12.50%	2001	Monthly Principal & Interest	904	530	
Texas	1	10.41%	2010	Monthly Interest Only	13,750	13,750	
Washington D.C.	1	12.08%	2015	Monthly Principal & Interest	17,350	17,162	
	6				93,504	92,591	
Behavioral Care Facilities:							
Florida	2	10.50%	2001	Monthly Principal & Interest	10,324	10,324	
Total Mortgage Loans	81				\$451,532	\$405,336	
OTHER REAL ESTATE INVESTMENTS (1)							
	8					\$ 30,898	

(1) Includes direct financing leases, working capital loans and credit enhancements.



Pacifica Hospital of The Valley
Sun Valley, California

Doctors Corporation of America, Inc.



Oak Park
Clermont, Florida

Greenbriar Corporation



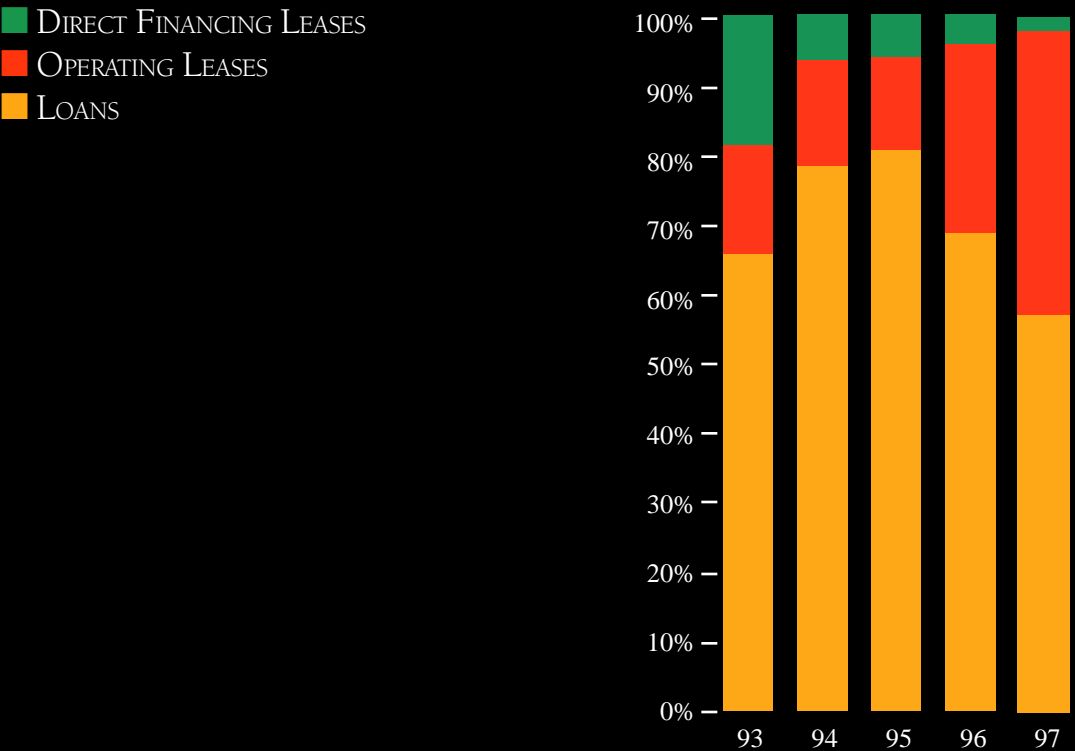
Lake Pointe Landing
Hendersonville, North Carolina

Life Care Centers of America, Inc.

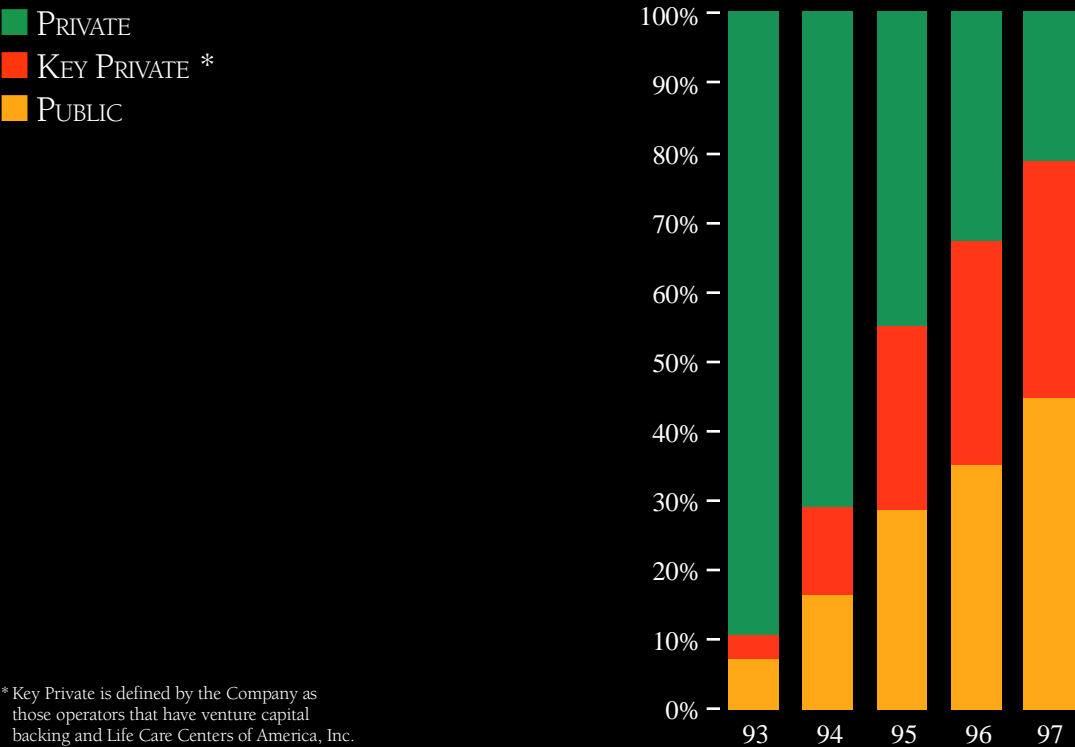
A new area of interest for 1998 is international investing. We have been studying and evaluating international health care investments for some time now - especially in the United Kingdom. In late 1997, we were approached by three parties already established in the United Kingdom: Westminster Health Care, the third largest publicly owned long-term care operator in the United Kingdom; an entity affiliated with Holiday Retirement Corp., the largest operator of retirement housing in North America; and BT Alex. Brown, an international financial services company and our lead investment banker. These companies requested our participation for our health care and real estate knowledge and our origination, underwriting and monitoring systems and procedures. This venture is quite attractive since it offers a solid group of knowledgeable, well-capitalized partners and an opportunity to begin investing in an area of the world with a similar culture and long-term care delivery system. Perhaps as important, we are able to proceed with an initial investment giving us more time to study the scope of our commitment. We will keep you apprised of our progress.

In last year's report to shareholders, we expended a good portion of the space available dealing with the capabilities of our management team. This commitment to broad, deep and creative management seems more important each year as the challenges and opportunities mount in the real estate and health care arenas. Our efforts are bolstered by a Board of Directors who we believe are the most experienced in our sector. We have recently added a new director, Jeff

HEALTH CARE REIT, INC.
INVESTMENT MIX

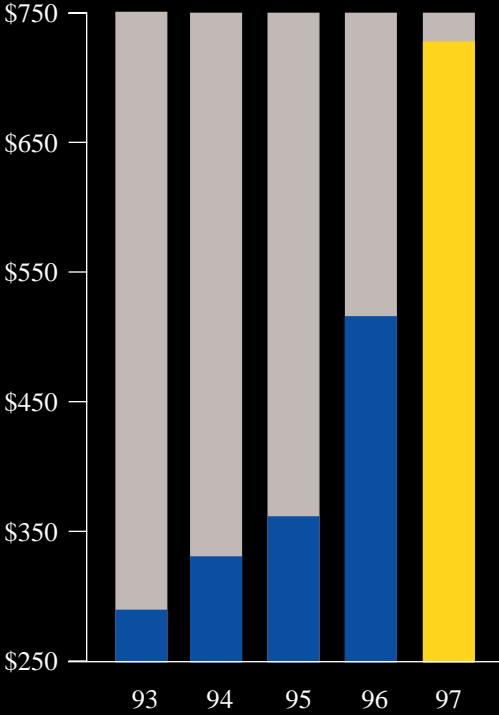


HEALTH CARE REIT, INC.
OPERATOR MIX

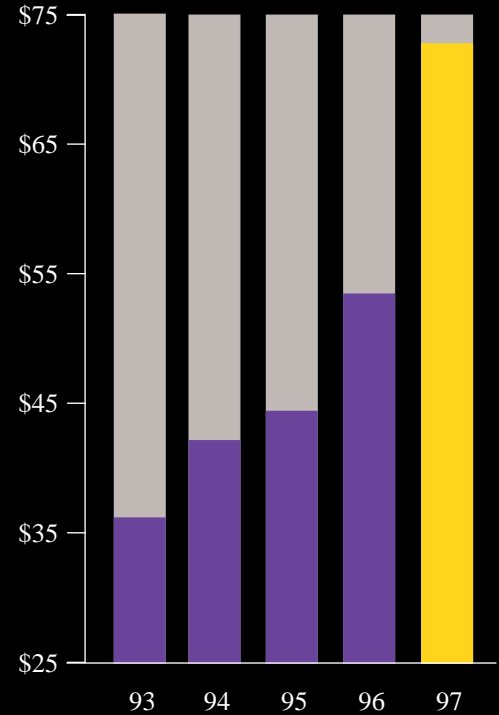


* Key Private is defined by the Company as those operators that have venture capital backing and Life Care Centers of America, Inc.

HEALTH CARE REIT, INC.
TOTAL ASSETS
(\$ in Millions)



HEALTH CARE REIT, INC.
REVENUES
(\$ in Millions)



Renaissance Village
Peoria, Arizona

AMC Extended Care
Facility, Inc.

Donahue, CFO of The Rouse Company. The Rouse Company is one of the outstanding real estate development and operating companies in the United States. On January 1, 1998, The Rouse Company converted to REIT status. Jeff's considerable real estate, financial and REIT expertise has been an excellent addition to our Board.

As usual, we have our challenges in 1998 and beyond. Yet, the execution of our business plan in 1997 has certainly eliminated some hurdles and lowered others. The test for us year to year is to continue executing our basic business plan, proactively and carefully, and developing our strategies to promote the greatest shareholder value.

We appreciate your continuing support.



George L. Chapman
Chairman, Chief Executive Officer and President



Arkansas Heart Hospital
Little Rock, Arkansas

MedCath Incorporated