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## Health REITs Provide Bright Spot

**Baby Boomers Fuel  
Demand for Projects;  
Oversupply Risks Great**

By SUI-LEE WEE  
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Even as the slow economy and credit crunch push many developers to the sidelines, health-care real-estate investment trusts are providing one of the few bright spots as they expand their development pipelines.

Some of the biggest health-care REITs by stock-market value -- HCP Inc., **Ventas Inc.**, Healthcare Realty Trust Inc., Nationwide Health Properties Inc. and **Health Care REIT Inc.** -- are expected to build \$675.9 million of properties by year's end, up from \$236.5 million in 2007, according to stock-research firm Stifel Nicolaus.



Health Care REIT Inc.


Health Care REIT, currently under construction, is a 325 unit campus including the full continuum of care from cottages to skilled nursing services.

Health-care REITs -- which own nursing homes, medical-office buildings and assisted-living facilities -- can build because they can borrow. Banks have become much pickier these days about making construction loans on a project-by-project basis. But banks have been more willing to provide large revolving credit lines to health-care REITs because their balance sheets are strong. In addition, REITs that develop private-pay, senior housing facilities benefit from government-sponsored Fannie Mae and Freddie Mac, which have mandates to provide market liquidity and funding to ease the real-estate slowdown.

"They are not only conservatively leveraged as a group, they can also issue equity. Funding is not much of an issue to them," says Rosemary Pugh, a health-care REIT analyst with Green Street Advisors.

About 22.7 million square feet of medical-office space is expected to be developed by year's end in the U.S., compared with 18 million square feet in 2007, according to brokerage firm Marcus &

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Millichap Real Estate Investment Services. Only 8.7 million square feet have been completed so far. In the year to date, the total supply of medical-office space is 461.3 million square feet.

Still, the risks of oversupply in the senior housing market are great.

Louis Taylor, a managing director at Deutsche Bank Securities, warns that health-care REITs should be careful to avoid a repeat of the overbuilding that occurred among assisted-living centers in the late 1990s, when developers overestimated market demand. In the fourth quarter of 2007, developers added 5,363 beds, even though total demand was for 3,485 units, according to a survey by the National Investment Center for the Seniors Housing & Care Industry, a research group.

Within the health-care sector, Health Care REIT and Healthcare Realty Trust are the most active developers. Health Care REIT, based in Toledo, Ohio, had about \$1.1 billion in projects under construction at the end of the first quarter, up sharply from the \$510 million it had in its pipeline a year ago, with the bulk of it focused on senior housing.

Some of Health Care REIT's projects that are under construction include a 325-unit senior housing community development in Greenville, S.C., which contains a 52,000-square-foot clubhouse, ballroom and movie theater. George Chapman, the company's chief executive, predicts the trend toward providing these types of features "will only accelerate as the baby-boomers begin to move through the senior housing continuum."

Ventas, Louisville, Ky., has a development pipeline of more than \$200 million, up from zero in 2007. "As baby boomers become Medicare-eligible, starting 2011, they will have more time and need to visit physicians, which will increase the need for medical office buildings," says Debra Cafaro, chief executive of Ventas.

Long Beach, Calif.-based HCP, the largest health-care REIT by stock-market value, had a total development pipeline of \$1.5 billion in the first quarter, up from \$25 million in the same period last year. HCP acquired the Slough Estates U.S.A. Inc. portfolio in August, giving the company a development platform for life sciences campuses. For 2008, HCP expects to deliver six buildings in the life sciences sector.

In December, Charlotte, N.C.-based Cogdell Spencer Inc. signed an agreement with St. Luke's Hospital & Health Network of Bethlehem, Pa., to develop a 383,000-square-foot project consisting of a cancer center, an outpatient health-care pavilion and two medical-office buildings that would cost \$38.9 million.

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