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Health Care REIT Sector Comments

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Summary and Outlook

Health Care REIT stock prices traded up 17% during the first 8 months of 2014, outperforming average gain of 12% for all REITs followed by **REITMonitor.net**. Excitement over Health Care REITs was highlighted by implementation of Affordable Care Act, adding patient volume for health care service tenants of Health Care REITs. Consolidation of health care service industry provides opportunity for Health Care REITs to provide capital supporting acquisitions and network expansion. Health Care REIT portfolios generate stable FFO growth through contractual rent increases, supplemented by acquisitions and new developments, while demographic trends ensure long term demand growth. FFO for 2014 is expected to increase more than 7% for most Health Care REITs.

Yield Range

Yields for Health Care REITs range from 3.7% for **Alexandria Real Estate Equities** to 6.7% for **Senior Housing Properties Trust**. Average yield for Health Care REITs is 5.1%. Most Health Care REITs raised dividends during 2014 as a result of strong FFO growth trends. Outlook for 2015 indicates even more substantial dividend increases.

Capitalization Range

Market cap for Health Care REITs totals \$87 billion, representing 11% of total market cap for all REITs followed by **REITMonitor.net**. Health Care REITs report total capitalization (including market cap, as well as debt, preferred stock and non-trading equity) in a range of 19.5X-28.1X to annualized FFO. Lowest valuation is **Senior Housing Properties Trust** and highest is **Healthcare Realty Trust**.

S&P 500 Index Health Care REITs

Health Care REITs included in the S&P 500 Index include **HCP, Inc** (market cap of \$20 billion, total cap/FFO 20.60X, yielding 5.1%), **Health Care REIT** (market cap of \$20 billion, total cap/FFO at 27.3X, yielding 4.7%), and **Ventas** (at market cap of \$19 billion and total cap/FFO at 22.6X, yielding 4.4%). All 3 of the S&P 500 Index Health Care REITs enjoy the benefits of diversified portfolio and exceptional financial flexibility.

Health Care REIT Rankings

We rank almost all Health Care REITs BUY, with particular emphasis on the 3 large cap Health Care REITs included in the S&P 500 Index, **HCP Inc** (upgraded to our highest ranking on discount due to management departure), **Ventas** and **Health Care REIT**. We also maintain BUY ranks on **Medical Properties Trust**, **Omega Healthcare Investors**, **National Health Investors**, **Healthcare Realty Trust** and **Senior Housing Properties Trust**. We also rank Health Care REITs with life science portfolios as BUY: **Alexandria Real Estate Equities** and **BioMed Realty Trust**. We maintain HOLD ranking on **LTC Properties**, with a portfolio concentrated in unsecured debt as well as mortgages for long term care nursing facilities, and **Universal Health Realty Income Trust**, with a portfolio heavily concentrated in properties operated by a related tenant, Universal Health Services.

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