

STIFEL

Healthcare Realty Trust, Inc.
HR – NYSE
Buy
Healthcare REITs

Company Update

Updating Model; Reiterate Buy Rating

Updating model to increase assumed share count to reflect HR's previously announced share issuance. We maintain Buy rating and positive outlook.

Updating Estimates: Updating estimates to adjust for higher average shares outstanding in 3Q. HR had 115.8M shares outstanding as of July 29. We expect slightly lower 3Q per share FFO of \$0.39 FFO for 3Q16, down from \$0.41 and 2016E FFO decreases to \$1.62 from \$1.66. Updated estimate is largely in line with consensus after adjustment. Overall, we believe these are minor changes and continue to have a positive outlook on the stock.

Favorable Outlook for MOB REITs: We believe medical office buildings have the most compelling fundamentals among healthcare REIT asset classes and expect MOB focused REITs to outperform the sector as a whole. MOBs are less exposed to oversupply risks, as in seniors housing, and are insulated from direct government reimbursement risk when compared to skilled nursing and hospitals.

Second Quarter Recap: Healthcare Realty reported \$0.42 FFO per share compared to our \$0.42 estimate and consensus of \$0.42. We calculate \$0.39 FAD per share, which was slightly ahead of our \$0.38 estimate and consensus. FAD growth was driven by strong same-property occupancy and rate growth. Expected investments are slightly better, offset by some additional share issuance. Overall, we see it as a good quarter with not much variance from our expectations.

Reiterate Buy Rating and \$36 Target Price; Maintain Favorable Outlook: We have made marginal adjustments to our model to account for the additional equity issuance. We are reiterating our \$36 price target and Buy rating. We believe medical office buildings have the most compelling fundamentals among healthcare REITs.

Changes	Previous	Current
Rating	—	Buy
Target Price	—	\$36.00
FY16E FFO	\$1.66	\$1.62
FY17E FFO	\$1.74	\$1.72
FY16E FAD	—	1.50
FY17E FAD	1.66	1.64

Price (09/28/16):	\$34.82
52-Week Range:	\$37 – \$24
Market Cap.(mm):	4,021.7
Shr.O/S-Diluted (mm):	115.5
Enterprise Val. (mm):	\$4,248.7
Avg Daily Vol (3 Mo):	869,997
LT Debt/Total Cap.:	29.1%
Book Value/Share:	\$9.42
NAV (US\$):	\$33.08
Premium/Discount:	(0.9) %
Dividend(\$ / %)	\$1.20 / 3.4%
S&P Index	2,171.37

FFO	2015A	2016E	2017E
Q1	\$0.38	\$0.41A	\$0.41
Q2	0.39	0.42A	0.43
Q3	0.41	0.39	0.43
Q4	0.41	0.41	0.44
FY Dec	\$1.58A	\$1.62	\$1.72
P/FFO	22.0x	21.5x	20.2x

FAD	2015A	2016E	2017E
Q1	0.34	0.38A	0.40
Q2	0.35	0.39A	0.41
Q3	0.37	0.36	0.41
Q4	0.37	0.38	0.42
FY Dec	1.43A	1.50	1.64
P/FAD	24.3x	23.2x	21.2x

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All relevant disclosures and certifications appear on pages 4 - 6 of this report.

Target Price Methodology/Risks

Our price target of \$36 is equal to 21x 2017E FFO, in line with our target multiple for peer Healthcare Trust of America and supported by NAV of \$33.

Major Risks Include:

Rising interest rates and/or weaker equity valuation can erode investment spreads. Below estimated acquisition levels and/or investment yield could impair growth rate. Unexpected property level expense growth or lower than expected occupancy due to non-lease renewals or slow lease-up of development could impact margins.

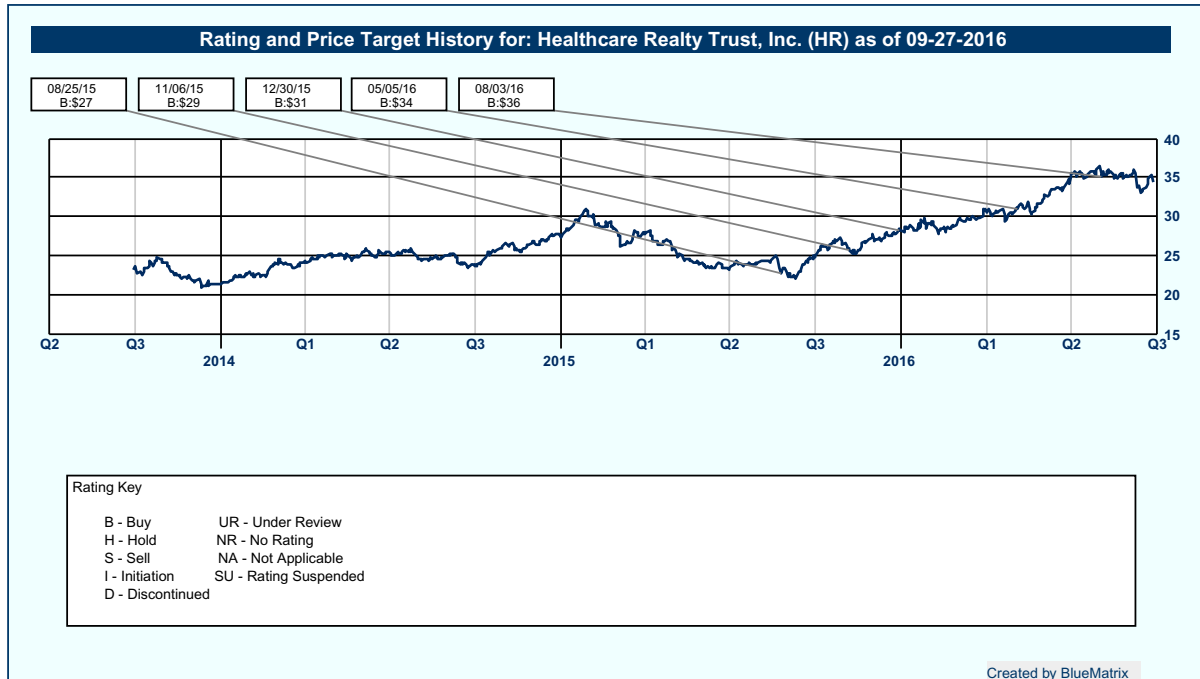
Company Description

Healthcare Realty (HR) is a self-administered REIT that acquires, develops, and manages health facilities. The company focuses on medical office buildings (MOBs) and outpatient facilities. As of June 30, 2016, HR's portfolio included \$3.4 billion of assets in 202 properties and mortgages totaling 14.5 million square feet.

Healthcare Realty Trust Earnings Model (in thousands, except per share data)	Chad Vanacore vanacorec@stifel.com (518) 587-2581					Seth Canetto canettos@stifel.com (518) 587-2676					Aaron Wolf wolfa@stifel.com (443) 224-1206					
	2014 A	1Q15 A	2Q15 A	3Q15 A	4Q15 E	2015 E	1Q16 A	2Q16 A	3Q16 E	4Q16 E	2016 E	1Q17 E	2Q17 E	3Q17 E	4Q17 E	2017 E
Assumptions:																
Net acquisitions during period (1)	\$120,676	\$39,250	(\$84,285)	(\$21,300)	\$80,100	\$13,765	\$38,300	\$41,615	\$10,000	\$70,085	\$160,000	\$30,000	\$30,000	\$30,000	\$30,000	\$120,000
Rate of return on new acquisitions (cash yield)	6.9%	6.3%	6.3%	6.3%	6.3%	6.3%	5.5%	5.5%	6.0%	6.0%	5.8%	6.0%	6.0%	6.0%	6.0%	6.0%
Mortgages during period net of prepay. (1)	(\$123,400)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rate of return on mortgage investments	5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Development put in service (1)	\$85,405	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$51,800	\$26,500	\$0	\$0	\$78,300
Rate of return on development	8.4%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
Revenue growth - existing properties (annually)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Mortgage payoffs/asset sales as a percent of mortgages	3.0%	0.7%	0.7%	0.7%	0.7%	3.1%	0.7%	0.7%	0.7%	0.8%	3.2%	0.8%	0.8%	0.8%	0.8%	3.3%
Percent of acquisitions that are prop. oper. agreements	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Other property related revenue growth (annually)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Operating expenses as % of prop. oper. income	46.4%	45.1%	44.2%	45.0%	45.6%	45.0%	43.3%	42.9%	43.9%	42.7%	43.2%	43.0%	42.0%	43.0%	41.8%	42.4%
NOI growth on acquired properties (annually)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Annual percent growth in interest on new mortgages	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
G&A as % of NOI	9.6%	10.8%	10.7%	10.2%	11.7%	10.8%	15.9%	12.2%	14.2%	14.0%	14.1%	14.0%	13.3%	13.1%	12.9%	13.3%
Estimated construction funding needs - capitalized	\$5,200	\$16,250	\$16,250	\$16,250	\$16,250	\$65,000	\$16,553	\$4,456	\$4,456	\$4,456	\$29,922	\$12,500	\$12,500	\$12,500	\$12,500	\$50,000
Average interest rate on average debt outstanding	5.2%	5.1%	4.9%	4.4%	4.2%	4.7%	4.2%	4.2%	4.3%	4.3%	4.2%	4.4%	4.4%	4.4%	4.3%	4.4%
Additional debt issued (retired) during period	\$55,233	\$40,863	(\$55,758)	(\$7,512)	\$43,707	\$21,300	(\$6,645)	(\$3,608)	(\$17,903)	(\$6,813)	(\$194,970)	\$10,401	\$9,200	\$6,678	\$7,820	\$34,099
Additional equity issued during period	106,525	34,685	0	0	37,967	72,652	80,785	79,484	304,600	79,484	54,354	25,000	25,000	25,000	25,000	100,000
Additional common shares issued during period	3,899	1,259	0	0	1,430	2,572	2,732	2,413	16,230	2,373	16,249	735	725	714	704	2,817
Projected FFO/stock price multiple	18.5x	18.4x	14.9x	15.3x	17.2x	23.0x	18.9x	20.7x	21.4x	20.7x	21.1x	20.5x	20.1x	20.4x	20.0x	21.5x
Ending common stock price	\$27.32	\$27.78	\$23.26	\$24.85	\$28.25	\$28.25	\$30.89	\$34.99	\$33.00	\$33.50	\$33.50	\$34.00	\$34.50	\$36.00	\$35.50	\$35.50
Quarterly Earnings Model (in thousands, except per share data)																
NOI from existing properties: (2)																
Master lease rental income	\$65,864	\$17,548	\$17,505	\$16,114	\$16,071	\$67,238	\$16,107	\$16,098	\$16,339	\$16,584	\$65,128	\$16,708	\$16,833	\$16,959	\$17,086	\$67,586
Property operating income	292,368	76,045	76,697	78,273	80,582	311,597	81,782	84,453	85,720	87,006	338,961	87,659	88,316	88,978	89,645	354,598
Straight-line rents	12,443	2,832	2,475	2,309	1,929	9,545	2,132	2,091	2,156	2,256	8,634	2,381	2,456	2,531	2,606	9,973
Less property operating expenses & land sale costs	(136,331)	(34,263)	(33,927)	(35,247)	(36,758)	(140,195)	(35,406)	(36,263)	(37,664)	(37,142)	(146,475)	(37,693)	(37,093)	(38,261)	(37,427)	(150,473)
NOI from existing properties (2)	\$238,044	\$62,162	\$62,750	\$61,449	\$61,824	\$248,185	\$64,615	\$66,379	\$66,550	\$68,704	\$266,248	\$69,504	\$70,512	\$70,207	\$71,910	\$281,684
NOI from acquired property - cumulative (2)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$96	\$363	\$966	\$1,329	\$1,724	\$2,186	\$2,650	\$3,117	\$9,677
NOI from development put in service - cumulative (2)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$96	\$363	\$966	\$1,329	\$1,724	\$2,186	\$2,650	\$3,117	\$9,677
Interest income from mortgages: (2)																
Interest income from existing mortgages	3,666	31	31	29	0	91	0	0	0	0	0	0	0	0	0	0
Total NOI and mortgage interest income (2)	\$238,710	\$62,193	\$62,781	\$61,478	\$61,824	\$248,276	\$64,615	\$66,475	\$67,009	\$69,766	\$267,866	\$70,875	\$72,794	\$72,954	\$75,124	\$291,746
Other income and expenses:																
Interest and Other Income including lease guarantees	2,637	91	147	72	78	388	86	93	93	93	365	75	75	75	75	300
Income from discontinued Operations	274	333	330	61	(10)	714	(7)	(19)	0	0	(26)	0	0	0	0	0
Gain (loss) on sale of assets	9,283	0	41,549	16,486	9,138	67,173	0	8	0	0	8	0	0	0	0	0
Impairments	(12,030)	(3,328)	(654)	(310)	(687)	(4,979)	0	0	0	0	0	0	0	0	0	0
General and administrative expenses	(22,824)	(6,738)	(6,713)	(6,258)	(7,216)	(26,925)	(10,246)	(8,129)	(9,520)	(9,770)	(37,665)	(9,920)	(9,650)	(9,520)	(9,650)	(38,740)
EBITDA	\$216,050	\$52,551	\$97,440	\$71,529	\$63,127	\$284,647	\$54,448	\$58,428	\$57,582	\$60,089	\$230,548	\$61,030	\$63,219	\$63,509	\$65,549	\$253,306
Reconciliation of EBITDA to funds from operations (FFO):																
Less: Interest expense	(72,413)	(18,322)	(17,213)	(15,113)	(14,885)	(65,533)	(14,938)	(14,815)	(14,157)	(13,116)	(57,026)	(13,517)	(13,751)	(13,700)	(13,642)	(54,611)
Less: Bad debt expenses	(31)	207	(27)	21	39	192	39	(78)	0	0	(39)	0	0	0	0	0
Less: Non-real estate depreciation and amortization	(2,547)	(522)	(484)	360	(92)	(314)	(407)	426	429	431	1,693	434	437	439	442	1,762
Less: Income Non-controlling interests	(313)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other nonrecurring revenues & (expenses) (3)	2,747	3,328	(74,807)	(16,176)	(8,451)	(96,106)	0	(12)	0	0	(12)	0	0	0	0	0
Funds from operations (FFO) - reported	\$143,493	\$37,242	\$4,909	\$40,621	\$40,114	\$122,886	\$39,956	\$43,949	\$43,855	\$47,404	\$175,164	\$47,847	\$49,004	\$50,248	\$52,349	\$200,448
Less: (prepay fees, non-cash charges & other items)	(2,173)	34,079	0	0	1,028	35,285	17,077	236	750	750	3,443	2,000	2,000	2,000	2,000	8,000
Normalized Funds from operations (FFO)	\$141,315	\$37,421	\$38,988	\$40,621	\$41,142	\$158,172	\$41,663	\$44,185	\$44,605	\$48,154	\$178,607	\$49,947	\$51,904	\$52,248	\$54,349	\$208,448
Add: Non-real estate D&A not in FFO	4,210	844	648	433	456	2,381	411	353	700	700	2,164	700	700	700	700	2,800
Less straight-line rents	(11,029)	(2,832)	(2,475)	(2,309)	(1,929)	(9,545)	(2,132)	(2,091)	(2,156)	(2,256)	(8,634)	(2,381)	(2,456)	(2,531)	(2,606)	(9,973)
Add: straight-line liabilities	721	195	194	194	188	771	184	184	184	184	736	184	184	184	184	736
Addback non-cash compensation	4,451	1,617	1,461	1,480	1,471	6,029	1,948	1,850	1,850	1,850	7,498	2,010	1,910	1,910	1,910	7,740
Maintenance and 2nd Generation Capex - SN estimates	(15,000)	(3,750)	(3,750)	(3,750)	(3,750)	(15,000)	(3,750)	(3,750)	(3,750)	(3,750)	(15,000)	(2,500)	(2,500)	(2,500)	(2,500)	(10,000)
Provision for bad debt and other items not in FFO	287	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Funds available for distribution (FAD)	\$124,955	\$33,495	\$35,066	\$36,669	\$37,578	\$142,808	\$38,324	\$40,731	\$41,433	\$44,883	\$165,371	\$47,960	\$49,743	\$50,011	\$52,037	\$199,751
Reported FFO per common share equivalent - diluted	\$ 1.48	\$ 0.38	\$ 0.05	\$ 0.41	\$ 0.40	\$ 1.23	\$ 0.39	\$ 0.42	\$ 0.38	\$ 0.40	\$ 1.59	\$ 0.40	\$ 0.41	\$ 0.41	\$ 0.43	\$ 1.65
Normalized FFO per share, ex. non-recurring items	\$ 1.46	\$ 0.38	\$ 0.39	\$ 0.41	\$ 0.41	\$ 1.58	\$ 0.41	\$ 0.42	\$ 0.39	\$ 0.41	\$ 1.62	\$ 0.41	\$ 0.43	\$ 0.43	\$ 0.44	\$ 1.72
% FFO Growth	13.2%	7.6%	9.4%	10.0%	6.7%	8.2%	8.0%	8.1%	(5.0%)	(1.1%)	2.5%	1.7%	1.6%	11.1%	9.4%	6.2%
Normalized FAD per common share equivalent - diluted	\$ 1.29	\$ 0.34	\$ 0.35	\$ 0.37	\$ 0.37	\$ 1.43	\$ 0.38	\$ 0.39	\$ 0.36	\$ 0.38	\$ 1.50	\$ 0.40	\$ 0.41	\$ 0.41	\$ 0.42	\$ 1.64
% FAD Growth	12.2%	6.3%	9.4%	15.6%	8.8%	10.9%	11.8%	11.4%	(2.7%)	2.7%	4.9%	5.3%	5.1%	13.9%	10.5%	9.3%
Dividends per share	\$ 1.20	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30	\$ 1.20	\$ 0.30	\$ 0.30	\$ 0.31	\$ 0.31	\$ 1.22	\$ 0.31	\$ 0.31	\$ 0.32	\$ 0.32	\$ 1.26
Weighted average common shares and OP units:																
Common shares and OP units outstanding - basic	95,271	98,360	99,273	99,337	99,699	99,167	101,432	103,988	114,777	118,079	109,569	119,633	120,363	121,082	121,791	120,717
Converted warrants, options, pref. stock, debentures, etc.	1,474	777	672	660	775	721	733	782	782	782	770	782	782	782	782	782
Weighted average shares and units outstanding - diluted	96,745	99,137	99,945	99,997	100,474	99,888	102,165	104,770	115,559	118,861	110,339	120,415	121,145	121,864	122,573	121,499
Balance Sheet Information:																
Ending debt outstanding	\$1,387,133	\$1,430,934	\$1,407,383	\$1,383,789	\$1,410,423	\$1,408,132	\$1,420,562	\$1,415,942	\$1,325,787	\$1,233,429	\$1,348,930	\$1,235,223	\$1,245,024	\$1,252,962	\$1,260,211	\$1,248,355
Ending debt																

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For a price chart with our ratings and any applicable target price changes for HR go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=HR>

The rating and target price history for Healthcare Realty Trust, Inc. and its securities prior to February 25, 2015, on the above price chart reflects the research analyst's views under a different rating system than currently utilized at Stifel. For a description of the investment rating system previously utilized go to www.stifel.com.

Stifel or an affiliate expects to receive or intends to seek compensation for investment banking services from Healthcare Realty Trust, Inc. in the next 3 months.

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