



Healthcare Realty Trust Inc (HR)

Updated February 18th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	17.0%	Market Cap:	\$5.5 B
Fair Value Price:	\$22	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	02/23/2024
% Fair Value:	66%	5 Year Valuation Multiple Estimate:	8.6%	Dividend Payment Date¹:	03/14/2024
Dividend Yield:	8.6%	5 Year Price Target	\$25	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Healthcare Realty Trust is a REIT which integrates, owns, manages, finances, and develops income-producing real estate properties related to healthcare services, such as medical office buildings and other outpatient-related medical facilities across the USA. Healthcare Realty was founded in 1992, and has grown from a portfolio of 21 healthcare facilities to now being invested in almost 700 properties in the U.S. The trust's portfolio primarily consists of multi-tenant, on-campus medical office buildings that provide stable occupancy, high tenant retention, and reliable growth. The trust's portfolio is diversified by geography, tenant size, and physician specialty. Healthcare Realty Trust is headquartered in Nashville, Tennessee and has a market capitalization of \$5.5 billion.

On July 20th, 2022, Healthcare Realty completed its strategic combination with Healthcare Trust of America (previously HTA), and created a superior medical office building REIT. The combined company boasts improved market scale, increased diversification, and a stronger, more flexible balance sheet. Synergies should see that the combination is accretive. Additionally, value can be mustered from tighter operations, broadened health system relationships and a bigger development pipeline.

On February 16th, 2024, Healthcare Realty Trust reported fourth quarter 2023 results for the period ending December 31st, 2023. Normalized funds from operations (FFO) equaled \$0.39 per share, which was a 7% year-over-year decrease. Merger combined same store cash NOI for the fourth quarter increased 2.7% compared to Q4 2022. During the fourth quarter, the portfolio had leasing activity totaling 1.224 million square feet associated with 340 leases. The trust completed 703K square feet of renewals and 521K square feet of new and expansion leases.

As of the end of Q4, the trust had \$26 million in cash and cash equivalents and the net debt to adjusted EBITDA ratio was 6.4X.

Leadership expects Healthcare Realty to generate \$1.52 to \$1.58 in normalized FFO per share for 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFOPS	\$1.51	\$1.25	\$1.59	\$1.53	\$1.57	\$1.60	\$1.65	\$1.71	\$1.69	\$1.57	\$1.55	\$1.80
DPS	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.21	\$1.24	\$1.24	\$1.24	\$1.30
Shares²	98.8	101.5	109.4	125.1	125.3	134.7	134.5	143.6	383.6	383.3	383.0	400.0

Healthcare Realty has increased its normalized funds from operations per share consistently over the long term, despite being choppy in some year-over-year periods. Over the last nine years, normalized FFO has grown by just 0.4% annually on average. Growth has slowed even more in the recent period, and HR has a five year normalized FFO growth rate which is flat. Given Healthcare Realty's aggressive acquisition spree, we estimate that the trust can grow normalized FFO at a 3.0% rate annually going forward.

Acquisitions will be the main growth driver for Healthcare Realty. One recent example is the merger with Healthcare Trust of America. Additionally, the joint venture with the Teachers Insurance and Annuity Association's (TIAA) allows for

¹ Estimate

² In millions

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the trust to continue investing larger amounts of capital by diversifying its funding sources. Healthcare Realty and the TIAA formed a joint venture in November 2020 which expects to purchase roughly \$200 million of properties annually; HR owns 50% interest in the venture. Further, the trust predicts that average in-place rent increases, and future annual contractual increases for leases will further bolster FFO growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/AFFO	16.4	20.8	19.9	21.3	18.3	20.2	18.6	18.1	15.0	11.5	9.3	14.0
Avg. Yld.	4.8%	4.6%	3.8%	3.7%	4.2%	3.7%	3.7%	3.9%	4.8%	7.0%	8.6%	5.2%

Healthcare Realty has traded at a P/AFFO ratio of 18.0 on average in the last decade, and 16.7 on average in the past five years. While shares trade at 9.3 times estimated 2024 AFFO, we believe fair value for HR is around 14.0X. This implies the potential for a valuation tailwind. The 8.6% yield today is well above the 10-year average yield of 4.4%, and we see it coming down to 5.2% by 2029 as a result of a higher share price and low-growing dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

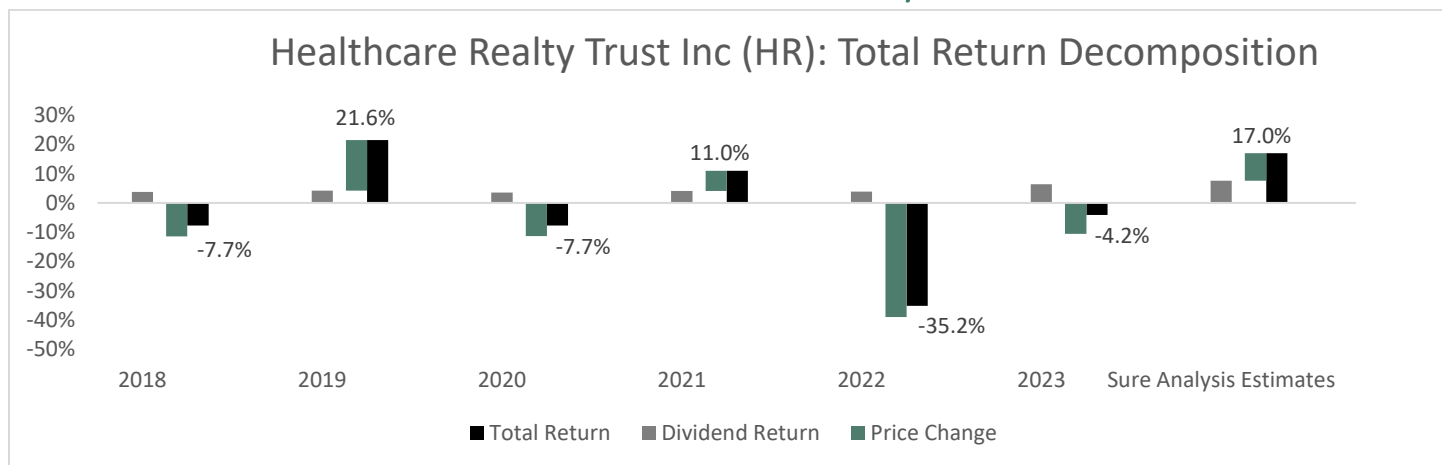
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	79%	96%	75%	78%	76%	75%	73%	71%	73%	79%	80%	73%

The trust's payout ratio has remained fairly stable over the last five years, whereas the payout had come under threat before then. Today the dividend appears to be well covered by normalized FFO. The trust last made a token 2.5% increase to the dividend, while it had remained practically unchanged for an entire decade prior. Healthcare Realty was negatively affected by the great recession, where it slashed its dividend multiple times from a high of \$2.64 in 2006 to \$1.20 by 2020. While healthcare properties are highly important, the trust is not necessarily recession resistant, as tenants can still face financial difficulties. In general, however, HR can benefit from better overall retention from their tenants. We do not see a strong competitive advantage fronting Healthcare Realty among its peers in the healthcare REIT space.

Final Thoughts & Recommendation

Healthcare Realty has been active on the acquisition front and is poised to outperform following a significant merger. The 8.6% dividend yield is a strong one, and there is also a modest tailwind to the valuation as the trust only trades at 66% of our estimated fair value. With total expected returns of 17.0%, we rate Healthcare Realty as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	371	388	412	425	450	470	500	535	933	1344
Gross Profit	237	248	265	267	280	290	303	323	589	843
Gross Margin	63.9%	63.9%	64.4%	63.0%	62.1%	61.7%	60.7%	60.3%	63.1%	
SG&A Exp.	23	25	31	33	35	35	31	34	53	58
D&A Exp.	116	120	131	146	167	181	195	207	478	776
Operating Profit	104	107	106	92	81	78	82	86	83	54
Operating Margin	28.0%	27.5%	25.8%	21.7%	18.0%	16.5%	16.4%	16.0%	8.9%	
Net Profit	32	69	86	23	70	39	72	67	41	-278
Net Margin	8.6%	17.9%	20.8%	5.4%	15.5%	8.3%	14.4%	12.5%	4.4%	
Free Cash Flow	55	105	80	99	138	148	376	132	109	269

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,758	2,817	3,041	3,194	3,191	3,564	3,812	4,259	13,850	12,640
Cash & Equivalents	4	4	5	6	8	1	15	13	61	26
Accounts Receivable	61	69	73	74	79		78	85	136	180
Total Liabilities	1,536	1,574	1,387	1,404	1,475	1,664	1,864	2,074	6,170	5,718
Long-Term Debt	1,404	1,431	1,264	1,284	1,346	1,414	1,603	1,801	5,352	4,995
Shareholder's Equity	1,221	1,243	1,653	1,790	1,717	1,900	1,948	2,185	7,571	6,823
LTD/E Ratio	1.15	1.15	0.76	0.72	0.78	0.74	0.82	0.82	0.71	0.73

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	2.5%	2.9%	0.7%	2.2%	1.2%	2.0%	1.7%	0.5%	-2.1%
Return on Equity	2.6%	5.6%	5.9%	1.3%	4.0%	2.2%	3.8%	3.2%	0.8%	-3.8%
ROIC	1.2%	2.6%	3.1%	0.8%	2.3%	1.2%	2.1%	1.8%	0.5%	-2.2%
Shares Out.	98.8	101.5	109.4	125.1	125.3	134.7	134.5	143.6	253.9	378.9
Revenue/Share	3.83	3.89	3.77	3.60	3.65	3.67	3.73	3.75	3.67	3.55
FCF/Share	0.57	1.05	0.73	0.84	1.12	1.16	2.81	0.92	0.43	0.71

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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