



# Strategic Insights



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## Current Considerations for Healthcare Real Estate Investors

While healthcare real estate does maintain certain favorable characteristics, valuation levels have created an environment that will make it more difficult for healthcare REITs to generate returns at levels seen over the past few years.

Over the past several years, healthcare real estate has joined other property types in a general trend of steady price appreciation. Amidst a backdrop of historically low interest rates, positive demographic trends, and a changing regulatory environment, specific types of healthcare properties have been bid up to the high end of several historical valuation measures. This has provided a favorable environment for those who acquired such properties in the past few years. Going forward, however, those raising and deploying capital in the space will be participating in a more competitive environment. As a result, healthcare real estate investment trusts (REITs) are unlikely to continue to perform at the levels seen over the last few years.

Multiple factors are often cited for the run up in demand for healthcare properties, perhaps most notably, shifting demographics and the effects of the Affordable Care Act (ACA). These drivers are expected to be a boon to the demand for healthcare services, to the benefit of related real estate. However, the changing landscape will not affect all property types within healthcare similarly, and its impact on property types such as senior housing, medical office buildings, skilled nursing facilities, and hospitals needs to be considered individually.

Healthcare real estate prices, in our view, have not run significantly ahead of fundamentals, and the favorable demand and supply characteristics of certain property types can still help protect against significant devaluation. Despite these favorable characteristics, current valuations could inhibit further property appreciation, making it difficult to produce outsized returns while holding risk levels in check.

Given valuation levels, LPL Financial Research believes it is prudent to temper expectations going forward for healthcare REITs. The demand story for certain property types remains strong, considering the changes in the way healthcare services are delivered and an aging population. However, current valuations have created an environment where, in our view, property appreciation going forward will be more difficult to come by. ■

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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in healthcare REITs entails risk including but not limited to: the possible loss of income, the status of the economy, issues facing the health care industry, regulations, negative developments in the operating results operators/tenants, including, but not limited to, their ability to pay rent and repay loans, natural disasters, environmental laws and foreign currency exchange rates.

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