

U.K., Canada Provide Global Potential for Health Care Investors

By Charles Keenan

With U.S. health care REITs providing solid total returns through the first five months of 2008, some investors have begun looking at their international brethren for additional opportunities. While the foreign market for listed health care REITs remains limited for now, steadily changing market demographics in countries such as Canada and the United Kingdom mean plenty of upside potential, according to international health care REIT executives at REITWeek 2008: NAREIT's Investor Forum®.

Health care REITs in these countries look to benefit from the same demographics as in the United States: an aging population and a growing demand for health services.

Investment options in Canada include **Chartwell Seniors Housing REIT** (TSX: CSH.UN) and **Extencare REIT**, (TSX: EXE.UN). For example, Chartwell Seniors Housing REIT, based in Mississauga, Ontario, focuses on modern facilities covering three main areas for older adults: independent living housing, retirement homes and long-term care facilities. Chartwell, with \$2.6 billion in assets, is the largest provider of senior housing in Canada and the third largest in the United States and has grown through acquisition, development and boosting occupancy.

Part of Chartwell's strategy involves acquiring other senior housing companies. The top 10 providers only represent 23 percent of the market in Canada, leaving plenty of room for growth, said Stephen Suske, chief executive officer and vice chair of Chartwell. "It is a very fragmented business," he said. "There are a lot of smaller operators, so it is a consolidation opportunity for bigger players like Chartwell."

As in the United States, senior housing in Canada has gone through a revamping over the years, with the most successful operators looking to provide more modern facilities. "If you are going to put your mom in a facility, you want to put her into one of these brand new facilities that has wow effect, like you're walking into a hotel for seniors," Suske said.

One major difference in Canada's market—about one tenth the size of the United States—is that government funding is viewed as more dependable. In the United States, investors worry often about possible changes in Medicare and Medicaid funding. The catch is Canadian REITs, known as income trusts, might soon lose their tax-exempt status. The government is expected to make a final ruling on the issue by the end of June, and the question is whether REITs will eke out an exemption.

The United Kingdom also presents investors an opportunity to get a toehold there in health care. While the U.K. market for health care REITs is in its nascent stages, **Primary Health**

Properties (LSE: PHP) presents an opportunity by tying its growth to the needs of the United Kingdom's National Health Service, the publicly funded health care system.

Primary Health, with a portfolio of \$635 million in assets as of Dec. 31, was the only health care REIT to mark the debut of REITs in the United Kingdom on Jan. 1, 2007. Primary Health's stock has recently suffered like other U.K. REITs of recent, just not as much. The stock has fallen more than 25 percent over the last year versus 49 percent for the U.K. EPRA/NAREIT index.

That might mean value for investors. United Kingdom "REITs have a difficult backdrop from which to bat," said Harry Hyman, managing director of Primary Health. "But REITs are here on a long-term basis. There is no oversupply of health care property in the U.K. Each building is built to order. And there is a huge backlog of buildings required to upgrade the stock of physical property out of which physicians work."

Primary Health derives 89 percent of its rent roll from doctors' offices that belong to the National Health Service. The bulk of the rest of rents comes from pharmacies. Primary Health does not develop its own properties, but works closely with developers and purchases facilities when they are completed. The REIT last month announced the purchase of three medical office sites across the United Kingdom, for a total of \$42.5 million. Its facilities are 99.5 percent leased, and leases average 18.5 years—giving stable cash flows and dividends over time. "We are trying to put ourselves in a very low risk position," Hyman said. "That is typically the way we do business."