

Fitch Places Healthcare Realty Trust on Watch Negative

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ABSTRACT (ABSTRACT)

On March 17, 2005, Healthcare Realty delayed the filing of its 2004 Form 10-K following certain accounting treatments raised by its then auditor, KPMG LLP. Following a series of issues with KPMG LLP, HR's audit committee dismissed KPMG and commenced a process to engage a new auditor. On July 11, 2005, HR announced the engagement of BDO Seidman, LLP as its independent registered public accounting firm. As part of its engagement, BDO Seidman, LLP will audit the company's financial statements for the year ended Dec. 31, 2004. Additionally, BDO Seidman, LLP will re-audit the company's financial statements for 2002 and 2003.

Fitch recognizes the recent announcement by the company regarding a new auditor as a step in the right direction but believes there is some execution risk in the timely completion of the 2004 audit. Additionally, Fitch's 'BBB' rating contemplates a company that can demonstrate ready access to multiple forms of capital. Considering HR's current situation, Fitch believes the company's 'ready access' is somewhat hampered with their nontimely filer status and an invalid shelf registration statement. The company's registration statement will not be valid until a period of 12 months passes following their on-time filings.

Fitch's ratings continue to reflect favorably on Healthcare Realty Trust's conservative financial profile as demonstrated through its stable credit statistics (averaging better than 3.0 times (x) coverage over the past three years), low debt leverage level (Fitch calculates HR's ratio of total debt to undepreciated book capital to be 36.3%), and its largely unencumbered portfolio that Fitch estimates covers unsecured obligations by 2.6x.

FULL TEXT

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Fitch Ratings has affirmed the 'BBB' rating of Healthcare Realty Trust, Inc.'s (Healthcare Realty, or HR) senior unsecured notes and the 'BBB-' preferred stock rating and has placed the ratings on Rating Watch Negative. These actions follow the company's nontimely filer status on their 2004 Form 10-K as well as their March 31, 2005 Form 10-Q. Approximately \$650 million of securities are affected by Fitch's actions.

On March 17, 2005, Healthcare Realty delayed the filing of its 2004 Form 10-K following certain accounting treatments raised by its then auditor, KPMG LLP. Following a series of issues with KPMG LLP, HR's audit committee dismissed KPMG and commenced a process to engage a new auditor. On July 11, 2005, HR announced the engagement of BDO Seidman, LLP as its independent registered public accounting firm. As part of its engagement, BDO Seidman, LLP will audit the company's financial statements for the year ended Dec. 31, 2004. Additionally, BDO Seidman, LLP will re-audit the company's financial statements for 2002 and 2003.

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With that said, on June 29, 2005, the company obtained approval to amend a financial reporting covenant in its

unsecured credit facility due 2006 to extend the period in which the company has to comply with certain financial reporting requirements until Nov. 30, 2005. As of March 31, 2005, the company had near full availability under its \$300 million line of credit. Additionally, in looking out over the next several years (and assuming no new capital commitments by the company) debt maturities, development commitments, and acquisition commitments total \$123.4 million. The company has no significant debt maturities until 2011, which partially mitigates the risk arising from the company's potential lack of immediate liquidity.

Finally, in recent conversations with the company's management, HR indicated they had not received a notice of default from the trustee of the public unsecured bonds of the company. Under their bond indenture, HR is required to submit to the trustee their 2004 Form 10-K 120 days after the end of the calendar year. To be in default under this financial reporting covenant, the trustee would have to send a notice of default to the company.

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Fitch will continue to closely monitor the company's progress towards obtaining an audited and filed 2004 Form 10-K and then catching up on the filing of its quarterly reports. Subsequent events, particularly those related to access to capital, will be evaluated by Fitch on a prospective basis and will therefore be reflected in the underlying ratings in a timely manner.

Healthcare Realty Trust Incorporated was incorporated in Maryland in 1993 and is a self-managed and self-administered real estate investment trust that integrates owning, acquiring, managing, and developing income-producing real estate properties and mortgages associated with the delivery of health care services throughout the U.S.

The company acquires existing health care facilities and provides property management, leasing, and build-to-suit construction projects for qualified health care operators. The company owns a diversified portfolio of health care properties, many of which are subject to long-term leases or financial support arrangements. As of March 31, 2005, the company had investments of approximately \$1.9 billion in 246 income-producing real estate properties and mortgages associated with the delivery of health care services throughout the U.S.

As of March 31, 2005, the company had 67.7% of its capital invested in the medical office/outpatient facilities space, 13.8% in assisted living/independent living facilities, 8.7% in skilled nursing facilities, 8.1% in inpatient rehab facilities, and 1.7% in other inpatient facilities. They maintain a diversified investment approach by asset type as well as geography with assets in 29 states with concentrations in Texas (23.5% of total square footage), Tennessee (13.3%), and Florida (11.1%).

For more on Fitch's macro view of the health care sector, see Fitch's 2005 REIT Scorecard, published March 31, 2005, available on the Fitch Ratings web site at www.fitchratings.com.

Fitch's rating definitions are available on the agency's public web site, www.fitchratings.com. Published ratings, criteria and methodologies, and relevant policies and procedures are also available from this site, at all times. This document will remain on the public site for seven days.

DETAILS

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