



Health Care REITs and the DJ Wilshire RESI Family

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Wilshire Associates introduced the Dow Jones Wilshire Real Estate Securities IndexSM (RESI) in September 1991. The purpose was to create an index of publicly traded real estate equity securities without the limitations of other appraisal-based indexes. In addition, the DJ Wilshire Real Estate Securities Index was developed to offer a market based index that is more reflective of real estate held by pension funds. This paper revisits the exclusion of health care REITs and concludes that they should be included in the DJ Wilshire RESI Family.

The DJ Wilshire RESI definition has three main components:

- The company must be an equity owner and operator of commercial (or residential) real estate. Security types excluded from consideration for inclusion in the Dow Jones Wilshire Real Estate Indexes include: mortgage REITs, healthcare REITs, net-lease REITs, real estate finance companies, home builders, large landowners and sub-dividers, and hybrid REITs. Companies that have more than 25 percent of their assets in direct mortgage investments will not be included in the indexes.
- At least 75 percent of the company's total revenue must be derived from the ownership and operation of real estate assets.
- The company must have a minimum total market capitalization of at least \$200 million at the time of its inclusion.

Exclusion Rationale

At the time the DJ Wilshire RESI was developed, research showed that certain types of REITs did not have performance that reflected the performance of direct real estate investing. Mortgage REITs behaved more like finance companies as they were sensitive to changing interest rates. Health care REITs were influenced by trends and developments in the health care industry. These REITs, as well as other REIT categories, were excluded from these indexes as they were less affected by trends in the real-estate market than other market factors.

Inclusion Rationale

The investment structure of health care REITs has been changing. Health care REITs now function as investments in real properties rather than as adjuncts to the delivery of health care services, and thus their performance is affected more by trends in the real-estate market than those in the health care field.

Table 1 shows the correlations between six health care REITs with a simple group average and the Dow Jones Wilshire 5000SM, its ten industry index subsets and the Dow Jones Wilshire REIT IndexSM.

**Table 1: 10-year Correlations of Monthly Returns
July 1997 to June 2007**

Index/Industry	HCP	HCN	HR	NHP	UHT	VTR	Group
DJ Wilshire 5000	0.12	0.14	0.24	0.17	0.11	0.05	0.17
Basic Materials	0.13	0.13	0.26	0.10	0.03	0.09	0.16
Consumer Services	0.10	0.08	0.16	0.17	0.04	0.12	0.15
Consumer Goods	0.21	0.12	0.27	0.28	0.16	0.19	0.27
Oil & Gas	0.10	0.07	0.20	0.06	0.09	0.00	0.10
Financials	0.29	0.17	0.43	0.31	0.17	0.21	0.35
Health Care	0.15	0.11	0.19	0.12	0.24	0.00	0.16
Industrials	0.04	0.06	0.18	0.09	0.02	0.07	0.10
Technology	0.02	0.14	0.13	0.09	0.03	-0.02	0.07
Telecommunications	0.16	0.16	0.10	0.17	0.10	-0.06	0.11
Utilities	0.17	0.24	0.32	0.26	0.10	0.21	0.29
DJ Wilshire REIT	0.58	0.53	0.63	0.59	0.47	0.39	0.69

Source: Wilshire Associates

It is clear that each of the six health care REITs are significantly more correlated to the DJ Wilshire REIT Index than any of the ten industries. It is also noteworthy that the simple monthly average returns of the group had higher correlations to the DJ Wilshire REIT Index than any individual security.

Conclusion

The changing structure of health care REITs and the performance correlations to the DJ Wilshire REIT Index show that health care REITs do behave more like real estate securities than health care securities; as such, they should be included in the DJ Wilshire RESI Family.

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