HEALTHCARE REALTY TRUST INC
Form 424B3
July 20, 2004

**FILED PURSUANT TO RULE 424(b)(3)**
**REGISTRATION NO. 333-109306**

**Subject to Completion, Dated July 20, 2004**

PROSPECTUS SUPPLEMENT

, 2004
(To prospectus dated March 17, 2004)

# 3,500,000 Shares

# Common Stock

Healthcare Realty Trust Incorporated is a self-managed and self-administered real estate investment trust ( REIT ) that integrates owning, acquiring, managing and developing income-producing real estate properties and mortgages associated with the delivery of healthcare services throughout the United States.

HR is offering and selling 3,500,000 shares of its common stock with this prospectus supplement and the accompanying prospectus.

HR s common stock is listed on the New York Stock Exchange under the symbol HR. On July 16, 2004, the last reported sale price of HR s common stock on the NYSE was $38.61 per share.

**Investing in the common stock of HR involves certain risks and uncertainties that are described in the Forward-Looking Statements and Risk Factors section beginning on page S-8.**

| | Per Share | Total |
|---|---|---|
| Price to the public | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds to Healthcare Realty Trust Incorporated | $ | $ |

The underwriters have an option to purchase, within 30 days from the date of this prospectus supplement, a maximum of 525,000 additional shares to cover over-allotments of shares, if any, at the public offering price set forth on the cover page of this prospectus supplement, less underwriting discounts and commissions. If such option is exercised in full, the total price to the public, underwriting discounts and commissions and proceeds to HR will be $ , $ and $ , respectively. It is expected that the shares will be available for delivery on or about July , 2004.

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

**Legg Mason Wood Walker**

**Incorporated**

**A.G. Edwards**

**Wachovia Securities**

**You should rely only on information contained in this prospectus supplement and the accompanying prospectus. If any information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on the prospectus supplement. Neither Healthcare Realty Trust Incorporated nor the underwriters have authorized anyone to provide you with information different from that contained in this prospectus supplement and the accompanying prospectus. HR and the underwriters are offering to sell, and seeking offers to buy, shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement and the accompanying prospectus, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or of any sale of the shares. The information in this prospectus supplement and the accompanying prospectus is current as of the date such information is presented. HR s business, financial condition, results of operations and prospects may have changed since such dates.**

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**Prospectus Supplement**

## PROSPECTUS SUPPLEMENT SUMMARY

*The following summary is qualified in its entirety by the more detailed information and financial statements and notes to such financial statements appearing elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, including the information under Forward-Looking Statements and Risk Factors. Unless the context otherwise requires, as used in this prospectus supplement and the accompanying prospectus, the terms HR and the Company include Healthcare Realty Trust Incorporated, its subsidiaries and other entities in which Healthcare Realty Trust Incorporated or its subsidiaries own an interest.*

### Information About Healthcare Realty Trust Incorporated

Healthcare Realty Trust Incorporated is a self-managed and self-administered real estate investment trust ( REIT ) that integrates owning, acquiring, managing and developing income-producing real estate properties and mortgages associated with the delivery of healthcare services. Management believes that HR is one of the largest fully-integrated real estate companies focused on properties related to the delivery of healthcare services. As of March 31, 2004, HR had investments of approximately $1.7 billion in 228 income-producing real estate properties and mortgages, containing approximately 11.8 million square feet. As of March 31, 2004, HR s real estate portfolio was comprised of six major facility types and HR provided property management services to approximately 5.2 million square feet. HR intends to maintain a portfolio of properties that are focused predominantly on the outpatient services and medical office segments of the healthcare industry and are diversified by tenant, geographic location and facility type. As of March 31, 2004, approximately 60.5% of HR s total investment value in its property portfolio consisted of these types of facilities, with the remainder consisting of skilled nursing facilities, assisted living facilities and other inpatient healthcare properties.

HR s principal executive offices are located at 3310 West End Avenue, Suite 700, Nashville, Tennessee 37203, and its telephone number is (615) 269-8175. HR s internet address is www.healthcarerealty.com. Information on the website is not part of this prospectus supplement or the accompanying prospectus.

### Strategy

HR s strategy is to be a full-service provider of integrated real estate solutions to quality healthcare providers. Consistent with this strategy, HR seeks to provide a broad spectrum of services needed to own, acquire, manage and construct healthcare properties, including leasing, construction (primarily build-to-suit), management, market research, budgeting, accounting, collection, tenant coordination and financial services.

HR was formed as an independent, unaffiliated healthcare REIT. Management believes that HR has a strategic advantage in providing its services to a more diverse group of healthcare providers because HR is not affiliated with any of its clients and does not expect to become affiliated with potential clients. Management also believes that its strategic focus on the outpatient service and medical office segments of the healthcare industry allows the Company to take advantage of the continued shift in healthcare services toward outpatient settings.

Management believes that the Company s future growth is best achieved by pursuing investments with market-dominant, high-grade healthcare providers in order to maximize consistent cash flow growth. HR s investment approach seeks to enhance providers financial capabilities and meet their long-term real estate objectives, building partnerships that foster additional investments and the opportunity to provide extended real estate services over time. In addition, management believes that successful healthcare providers realize that efficient access to new capital is critical to their long-term viability and look beyond traditional capital resources to engage partners that offer flexible, long-term alternatives to meet their real estate needs. Management believes that HR s ability to integrate capital resources with property management and construction expertise adds immediate and continuing value for its clients, fosters lasting investment relationships and differentiates HR from other real estate firms.

Management believes that HR s conservative capital structure differentiates the Company from other REITs and enables the Company to take advantage of worthy investment opportunities with leading healthcare providers.

Management believes that HR s disciplined investment approach serves to maximize value to its shareholders and enhances the prospects for long-term stability and continued growth of the Company s dividend.

**Recent Developments**

**Property Activity**

In February 2004, HR completed construction of a 60,000 square foot medical office building on the campus of Baptist Memorial Health Care Corporation in Collierville, Tennessee, a suburb of Memphis. Since 1999, HR has invested approximately $63.1 million in five medical office facilities and manages more than 750,000 square feet on Baptist Memorial s hospital campuses in Tennessee and Mississippi.

During the first quarter of 2004, HR acquired a 141,765 square foot medical office building located in Chicago, Illinois from Advocate Healthcare for about $18.1 million.

Also in the first quarter of 2004, HR acquired seven medical office buildings totaling 283,452 square feet and located in Michigan and Arizona from affiliates of Ascension Health, Inc. for approximately $29.9 million. In April 2004, the Company acquired six medical office buildings located in Nashville, Tennessee from affiliates of Ascension Health, Inc. for $70.8 million with an aggregate square footage of approximately 711,198. As of July 1, 2004, the Company had a total investment of approximately $100.7 million in 13 facilities on hospital campuses related to Ascension Health, Inc.

In April 2004, the Company acquired four medical office buildings from affiliates of MedStar Health, two of which are located in Washington, D.C., and two of which are located in Maryland, for $41.3 million with an aggregate square footage of approximately 269,539.

HR has two build-to-suit medical office construction projects in progress with Baylor Health Care System hospitals in Plano and Irving, Texas. The Plano facility will consist of approximately 190,000 square feet and is expected to be completed in November 2004. The Irving facility will consist of approximately 131,000 square feet and is expected to be completed in March 2005.

On July 6, 2004, the Company entered into an agreement with Baylor Health Care System to acquire a portfolio of 20 medical office buildings in and around Dallas, Texas for an approximate price of $133.0 million with an aggregate square footage of approximately 1,143,640. These acquisitions are expected to close in the third quarter of 2004 and are subject to conditions customary to these types of transactions. This acquisition would bring HR s total investment and commitments in Baylor properties to approximately $187.0 million.

Management believes that these transactions, especially the transactions with Baptist Memorial, Ascension Health and Baylor, further demonstrate HR s strategy of building long-term relationships with health care providers.

A number of the Company s properties are subject to options in favor of the operator to repurchase the properties for the amount of the Company s investment. Completion of the repurchase is contingent upon the operator having access to funding and certain other matters covered by the applicable contracts. The Company has in the past received notices of the exercise of such options where the repurchase did not occur. On June 24, 2004, the Company received notice from a senior living operator that it intends to exercise options to purchase the properties it leases from the Company. A closing of the proposed purchase of these properties would be contingent upon the operator s ability to secure financing and the resolution of other matters. Therefore, the Company cannot express an opinion as to whether or not the proposed purchase might occur or when it might close. The properties covered by the purchase options comprise approximately $74.9 million of the Company s assets and accounted for approximately 4% of the Company s revenues on a consolidated basis in the quarter ended March 31, 2004.

**Senior Notes due 2014**

In March 2004, HR publicly issued $300.0 million of unsecured senior notes due 2014 (the Senior Notes due 2014 ). The Senior Notes due 2014 bear interest at 5.125%, payable semi-annually on April 1 and October 1, and are due on April 1, 2014, unless redeemed earlier by the Company. The notes were issued at a discount of approximately $1.5 million, yielding a 5.19% interest rate per annum. The proceeds from the offering were used to repay in full the amount outstanding under the Company s Unsecured Credit Facility due 2006, to repay maturing indebtedness on HR s Senior Notes due 2006, and for general corporate purposes, including the acquisition of properties in the second quarter of 2004. At June 30, 2004, the rate on the Senior Notes due 2014 exceeded the rate on the Unsecured Credit Facility due 2006 by approximately 300 basis points.

**Common Stock Dividend**

Since commencing operations in June 1993, HR has increased its quarterly common stock dividend each quarter. The Company seeks to steadily increase its dividend while maintaining a relatively low payout-ratio. HR paid a dividend for the first quarter of 2004 of $0.635 per share, or $2.54 per share on an annualized basis. While HR has no present plans to change its quarterly stock dividend policy, no assurance can be given that the Company will increase or maintain its quarterly dividend in the future.

The following graph illustrates the Company s dividend growth on a quarterly basis since the Company s inception.

**Summary Consolidated Historical Financial Information and Other Data**

| | (Unaudited) Three Months Ended March 31, | | Year Ended December 31, | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2003 | 2002(1) | 2001 |
| | (dollars in thousands, except per share data) | | | | |
| **Statement of Income Data:** | | | | | |
| Total revenues | $ 51,664 | $ 47,021 | $ 191,997 | $ 185,746 | $ 181,950 |
| Interest expense | $ 8,973 | $ 8,446 | $ 34,601 | $ 34,195 | $ 38,110 |
| Net income | $ 17,812 | $ 18,568 | $ 70,507 | $ 70,091 | $ 79,887 |
| Net income per common share diluted | $ 0.42 | $ 0.45 | $ 1.69 | $ 1.55 | $ 1.81 |
| Weighted average common shares outstanding diluted | 42,379,283 | 41,615,403 | 41,780,088 | 41,606,068 | 40,463,158 |
| **Balance Sheet Data (as of the end of the period):** | | | | | |
| Real estate properties, net | $ 1,387,155 | $ 1,308,203 | $ 1,340,009 | $ 1,292,646 | $ 1,361,224 |
| Mortgage notes receivable | $ 93,057 | $ 90,425 | $ 91,835 | $ 102,792 | $ 122,074 |
| Total assets | $ 1,647,813 | $ 1,483,987 | $ 1,525,710 | $ 1,489,546 | $ 1,555,481 |
| Notes and bonds payable | $ 716,872 | $ 547,713 | $ 590,281 | $ 545,063 | $ 505,222 |
| Total stockholders equity | $ 894,815 | $ 902,298 | $ 902,278 | $ 908,199 | $ 1,012,087 |
| **Other Data:** | | | | | |
| Funds from operations diluted(2) | $ 29,094 | $ 28,547 | $ 113,986 | $ 102,028 | $ 112,064 |
| Funds from operations per common share diluted(2) | $ 0.69 | $ 0.69 | $ 2.73 | $ 2.45 | $ 2.77 |
| Dividends declared, per common share, during the period | $ 0.63 | $ 0.61 | $ 2.47 | $ 2.39 | $ 2.31 |

(1) Net income for 2002 includes an $11.8 million charge representing the accelerated vesting of deferred compensation relating to the retirement of an executive officer as well as severance-related, project and other costs associated with the elimination of other officer and employee positions.

(2) The table below sets forth computations of funds from operations ( FFO ) and FFO per share for the periods presented and reconciles FFO to net income. FFO and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts, Inc. ( NAREIT ). NAREIT defines FFO as the most commonly accepted and reported measure of a REIT s operating performance equal to net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO and FFO per share are the predominant measures used by the REIT industry and by analysts to evaluate equity REITs. As such, they are among the most important measures used by management. FFO does not, however, represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States, is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to net income as an indicator of the Company s operating performance or as an alternative to cash flow as a measure of liquidity.

| | (Unaudited) Three Months Ended March 31, | | Year Ended December 31, | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| Net income | $17,812 | $18,568 | $ 70,507 | $ 70,091 | $ 79,887 |
| Net (gain) loss on sales of real estate properties | | | 1,109 | (3,388) | (1,210) |
| Preferred stock dividend | | | | (4,992) | (6,656) |
| Real estate depreciation and amortization | 11,282 | 9,979 | 42,370 | 40,317 | 40,043 |

| | | | | | |
|---|---|---|---|---|---|
| Total adjustments | 11,282 | 9,979 | 43,479 | 31,937 | 32,177 |
| Funds from operations | $29,094 | $28,547 | $113,986 | $102,028 | $112,064 |
| Funds from operations per common share diluted | $ 0.69 | $ 0.69 | $ 2.73 | $ 2.45 | $ 2.77 |

**The Offering**

| | |
|---|---|
| Common Stock Offered | 3,500,000 shares |
| Common Stock to be Outstanding after the Offering | 46,565,185 shares(1) |
| Use of Proceeds | To fund HR s build-to-suit construction and investment commitments, including the acquisition of 20 medical office buildings from Baylor Health Care System, the repayment of indebtedness under HR s Unsecured Credit Facility due 2006 of approximately $ million and for general corporate purposes. |
| NYSE Symbol | HR |

(1) Excludes 2,068,236 shares of common stock reserved for issuance under HR s 2003 Employees Restricted Stock Incentive Plan, 80,827 shares of common stock reserved for issuance under its 1995 Restricted Stock Plan for Non-Employee Directors, 711,122 shares of common stock reserved for issuance under its Dividend Reinvestment Plan, 654,100 shares of common stock reserved for issuance under its 2000 Employee Stock Purchase Plan and 525,000 shares of common stock reserved for issuance in connection with the underwriters option to purchase additional shares to cover over-allotments.

**FORWARD-LOOKING STATEMENTS AND RISK FACTORS**

Before making an investment in the common stock of HR, you should carefully consider, among other factors, the risks described below and elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. This prospectus supplement and the accompanying prospectus do not describe all of the risks of an investment in the common stock of HR. You should consult your own financial and legal advisors as to the risks entailed by an investment in these shares and the suitability of investing in such shares in light of your particular circumstances.

This prospectus supplement, the accompanying prospectus and other materials HR has filed or may file with the SEC, as well as information included in oral statements or other written statements made, or to be made, by senior management of HR, contain, or will contain, disclosures which are forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as may, will, expect, believe, intend, plan, estimate, project, continue, other comparable terms. These forward-looking statements are based on the current plans and expectations of management and are subject to a number of risks and uncertainties that could significantly affect HR s current plans and expectations and future financial condition and results.

Such risks and uncertainties include, among other things, the following:

Changes in the financial condition or corporate strategy of HR s primary tenants;

Business conditions and the general economy;

The federal, state and local regulatory environment;

The availability of debt and equity capital with favorable terms and conditions; and

The ability of HR to maintain its qualification as a REIT.

Other risks, uncertainties and factors that could cause actual results to differ materially from those projected are detailed from time to time in reports filed by HR with the Securities and Exchange Commission, including Forms 8-K, 10-Q and 10-K (including those identified in HR s Annual Report on Form 10-K for the year ended December 31, 2003).

HR undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this prospectus supplement and the accompanying prospectus or HR s filings and reports.

**USE OF PROCEEDS**

The net proceeds from the sale of the shares of common stock, after estimated expenses of approximately $ million, are expected to be approximately $ million ($ million if the underwriters over-allotment option is exercised in full) and will be used to fund HR s build-to-suit construction and investment commitments, including the acquisition of a portfolio of 20 medical office buildings in and around Dallas, Texas from Baylor Health Care System for approximately $133.0 million, the repayment of approximately $ million of indebtedness under HR s Unsecured Credit Facility due 2006 and for general corporate purposes.

If the underwriters over-allotment option is exercised in whole or in part, any balance of the net proceeds will be used for one or more of the following: the repayment of approximately $ million of indebtedness under HR s Unsecured Credit Facility due 2006, to fund build-to-suit construction or investment commitments and for general corporate purposes.

As of July 9, 2004, HR had outstanding indebtedness of about $38.0 million under the Unsecured Credit Facility due 2006. Rates for borrowings under the Unsecured Credit Facility due 2006 are, at HR s option, LIBOR-based or based on the higher of the Federal Funds Rate plus 1/2 of 1% or the agent bank s prime rate and can vary based on HR s debt rating. The weighted average rate on borrowings outstanding at July 9, 2004 was approximately 2.40%.

**PRICE RANGE OF COMMON STOCK AND DIVIDENDS**

HR s common stock is listed on the NYSE under the symbol HR. The following table sets forth the range of high and low sale prices on the NYSE from the first quarter of 2002 through July 16, 2004, as well as the distributions paid per share by HR with respect to the periods indicated:

| | High | Low | Dividends Paid |
|---|---|---|---|
| **2002** | | | |
| First Quarter | $30.94 | $27.15 | $0.595 |
| Second Quarter | 32.10 | 27.50 | 0.600 |
| Third Quarter | 32.35 | 23.75 | 0.605 |
| Fourth Quarter | 32.34 | 27.25 | 0.610 |
| **2003** | | | |
| First Quarter | 29.93 | 22.96 | 0.615 |
| Second Quarter | 31.24 | 24.42 | 0.620 |
| Third Quarter | 33.00 | 29.17 | 0.625 |
| Fourth Quarter | 36.74 | 31.86 | 0.630 |
| **2004** | | | |
| First Quarter | 43.15 | 35.16 | 0.635 |
| Second Quarter | 44.03 | 32.45 | |
| Third Quarter (through July 16, 2004) | 38.98 | 37.16 | |

On July 16, 2004, the closing price for HR s common stock on the NYSE was $38.61 per share. As of July 8, 2004, there were approximately 1,937 holders of record of the Company s common stock.

HR has increased its distributions $.005 per share in each full fiscal quarter since it commenced operations in June 1993. HR s current indicated annualized distribution is $2.54 per share. The following graph illustrates the Company s dividend growth on a quarterly basis since the Company s inception.

HR intends to continue to pay quarterly distributions to stockholders. HR seeks to steadily increase its dividend while maintaining a relatively low payout-ratio. However, no assurance can be given that the Company will increase or maintain its quarterly dividend in the future. Future distributions will be declared and paid at the discretion of the board of directors and will depend upon cash generated by operating activities, the Company s financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, and such other factors as the board of directors deems relevant.

HR anticipates that funds available for distribution will be greater than earnings and profits, as a result of non-cash expenses, comprised primarily of depreciation and amortization, to be incurred by the Company. Distributions by HR to the extent of its current or accumulated earnings and profits for federal income tax purposes will be taxable to stockholders as ordinary dividend income. Distributions in excess of earnings and profits generally will be treated as a non-taxable return of capital to the extent thereof. Such distributions have the effect of deferring taxation until the sale of a stockholder s common stock. Approximately 39.37% of HR s distributions paid from 2003 income were a return of capital for federal income tax purposes. Management of the Company estimates that approximately 10% to 25% of the Company s distributions paid from 2004 income will be a return of capital for federal income tax purposes. In order to maintain its qualification as a REIT, HR must distribute dividends (other than capital gains dividends) to its shareholders in an amount equal to or greater than (a) the sum of (i) 90% of the Company s real estate investment trust taxable income (computed without regard to the dividends paid deduction and by excluding the Company s net capital gain) and (ii) 90% of the net income (after tax), if any, from foreclosure property, over (b) the sum of excess non-cash income (from certain imputed rental income and income from transactions inadvertently failing to qualify as like-kind exchanges). Under certain circumstances, HR could be required to make distributions in excess of funds from operations in order to meet such requirements.

HR has implemented a Dividend Reinvestment Plan (the Plan ), which permits stockholders of record to acquire additional shares of common stock by automatically reinvesting cash distributions at a modest discount and making optional cash purchases without payment of any broker commissions or service charges. Stockholders who do not participate in the Plan continue to receive cash distributions, as paid.

## CAPITALIZATION

The following table sets forth HR s unaudited consolidated capitalization as of March 31, 2004, on an actual basis and on a pro forma basis to give effect to this offering and the application of proceeds therefrom. The table should be read in conjunction with the consolidated financial statements and notes thereto incorporated into this prospectus supplement and the accompanying prospectus by reference to HR s Annual Report on Form 10-K for the year ended December 31, 2003 and Quarterly Report on Form 10-Q for the period ended March 31, 2004.

| | As of March 31, 2004 | |
|---|---|---|
| | **Actual** | **Pro Forma(1)** |
| | (In thousands) | |
| Cash and cash equivalents: | $ 59,125 | $ |
| Indebtedness: | | |
| Unsecured Credit Facility Due 2006(2) | $ 0 | $ |
| Senior Notes due 2006 | 49,700 | 49,700 |
| Senior Notes due 2011, net | 314,362 | 314,362 |
| Senior Notes due 2014, net | 298,495 | 298,495 |
| Mortgage notes payable | 52,565 | 52,565 |
| Other note payable | 1,750 | 1,750 |
| Total Indebtedness | $ 716,872 | $ |
| Stockholders equity: | | |
| Preferred Stock, $0.01 par value; 50,000,000 shares authorized; none issued and outstanding | $ 0 | $ 0 |
| Common stock, $.01 par value, 150,000,000 shares authorized, 43,046,892 shares issued and outstanding; issued and outstanding, pro forma | 430 | |
| Additional paid-in capital | 1,062,864 | |
| Deferred compensation | (24,976) | (24,976) |
| Cumulative net income | 533,471 | 533,471 |
| Cumulative dividends | (676,974) | (676,974) |
| Total stockholders equity | $ 894,815 | $ |
| Total capitalization | $ 1,611,687 | $ |

(1) Reflects the issuance of 3,500,000 additional shares of Common Stock in this offering.

(2) The outstanding balance on the Unsecured Credit Facility due 2006 was $38.0 million at July 9, 2004. The proceeds from the offering will be used, among other things, to reduce or repay approximately $ million of indebtedness under the Unsecured Credit Facility due 2006.

## THE COMPANY

### Information About Healthcare Realty Trust Incorporated

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## RECENT DEVELOPMENTS

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