

Impact Healthcare REIT

Property sale

Non-core sales enhance the portfolio

Real estate

Impact Healthcare REIT has exchanged contracts for the sale of five non-core homes for a combined £8.8m, in line with the most recent valuation. The sale is consistent with Impact's active asset management approach, enhances the quality and long-term sustainability of its overall portfolio, reduces tenant concentration and provides the opportunity to recycle capital. There is no change to our forecasts.

Year end	Rental income (£m)	Adjusted earnings* (£m)	Adjusted EPS* (p)	NAV**/ share (p)	DPS (p)	P/NAV (x)	Yield (%)
06/23	53.1	34.5	8.3	115.0	6.77	0.74	8.0
06/24e	54.9	35.3	8.5	119.6	6.95	0.71	8.2
06/25e	58.9	38.9	9.4	124.0	7.20	0.69	8.5
06/26e	61.3	41.0	9.9	127.3	7.50	0.67	8.8

Note: *EPRA earnings exclude fair value movements on properties and interest rate derivatives. **EPRA net tangible assets.

At the core of Impact's portfolio is a significant majority of good-quality, well designed and maintained, upper-middle-market care homes, viable for the term of the existing leases at the very minimum. Most of the balance is classified as value add, with the potential, working in partnership with tenants, to physically enhance and reposition the properties within their local markets. A minority of the homes are deemed non-core, having been acquired as part of more strategic portfolio transactions. They are candidates for disposal, where there are opportunities to reinvest the proceeds and create more value, while improving overall portfolio quality.

All five of the homes to be sold were acquired as part of the IPO seed portfolio in 2017 and have been operated by Minster, the largest of Impact's 14 tenants. The homes have either had a history of relative underperformance, have low EPC scores or are smaller than the ideal size for a care home. The unlevered internal rate of return that Impact has achieved on the homes has nonetheless been 6.6% pa, albeit below the 10.5% return generated by the whole seed portfolio. The seed assets were acquired from Minster and Croftwood (both part of the Minster Care group), which continue to be strongly performing tenants. Once completed, the disposals will reduce the company's exposure to Minster Group, currently operating 58 of 140 Impact homes (pre-sale), representing 34% of Q1 rent roll. More importantly, the sales will enhance the sustainability performance of Impact's portfolio, either by reducing exposure to homes with an EPC C or D rating or removing homes with relatively higher CO₂e emissions. The sale proceeds will be available for reinvestment in the portfolio, including identified asset management projects, for which Impact targets a return of at least 8%, while reducing the need for higher cost (currently more than 7%), unhedged, floating rate debt.

For three of the homes, contracts have been exchanged for the sale to a local operator in East Yorkshire. The total consideration is £4.3m and is expected to complete in Q3 once the operational transfer is approved by the Care Quality Commission. The sale of the other two homes to an affiliate of Minster, for £4.5m, has already completed. As a related-party transaction, it was subject to the board's normal safeguards against potential conflicts of interest, including a second, independent valuation.

3 July 2024

Price **85p**

Market cap **£354m**

Net debt (£m) at 31 March 2024 177.5

Net LTV at 31 March 2024 26.9%

Shares in issue 414.4m

Free float 91.7%

Code IHR

Primary exchange LSE

Secondary exchange N/A

Share price performance



Business description

Impact Healthcare REIT invests in a diversified portfolio of UK residential and nursing care homes, let on long leases to high-quality operators. It aims to provide shareholders with attractive and sustainable returns, primarily in the form of dividends, underpinned by structural growth in demand for care.

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