GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary

Recommended Investment:

Impact Healthcare REIT

Impact Healthcare REIT plc is a real estate investment trust listed on the London Stock Exchange. Launched in March 2017, the trust aims to provide shareholders with an attractive return, principally in the form of quarterly income distributions, through exposure to a diversified portfolio of residential care homes. The trust's strategy is to acquire, renovate and extend high quality care homes in the UK and lease them to healthcare operators under full repairing leases (where the tenant has total responsibility for the repair of the premises). Through such active asset management it also aims to deliver growth in net asset values over the medium term.

Changing demographics are favourable to this sector. A growing and ageing population is increasing demand for care in the UK, while the supply of suitable homes for providing that care is falling. Between 2005 and 2018, revenues of care home providers grew by 4.2% per annum, with total revenues growing from £8.9 billion to £15.2 billion.

The property portfolio is currently comprised of 67 residential care homes (3,139 beds) let to five tenants. When identifying potential tenants, management looks for those with:

i-strong balance sheets with no debt
ii-a track record of delivering good quality care
iii-high occupancy levels
iv-a consistent trading performance; and
v-rental cover of at least 1.75x.

Leases are established with fixed terms of no less than 20 years, no break clauses, and annual RPI-linked uplifts with a 2% floor and a 4% cap. They also favour tenants that have a desire to add value and add more homes to the portfolio.

This is allowing the REIT to pay a quarterly dividend of 1.5 pence, equating to a yield of 5.8%. The inflation-linked nature of the rental income is particularly attractive to income-seekers.

The fund's shares currently trade at a 2% premium to NAV, while its closest peer, Target Healthcare REIT, trades at a 5% premium. As such, we think that it offers some relative value and see scope for this differential in rating to narrow.

In summary, we believe that the portfolio's long-term, inflation-linked leases are appealing in the current environment. The trust utilises prudent financing with a maximum LTV of 35% of gross assets to seek to enhance returns and management has large equity stakes. The prospective **yield of 5.8%** is very attractive and the current 2% premium to the NAV offers value against its peers. **Buy.**

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