

Target Healthcare REIT

Another strong quarter

Target Healthcare REIT has reported another strong quarter, underpinned by organic rental growth, strong rent collection and arrears recovery. Around half of recent sales proceeds have been deployed, but significant available capital remains, more than matched by a strong pipeline of similarly attractive opportunities. Our unchanged forecasts point to acquisitions, in combination with indexed rent reviews, driving continuing earnings and DPS growth.

Year end	Net rental income (£m)	EPRA earnings (£m)	EPRA EPS (p)	NAV/share (£)	DPS (p)	EPS (£)	P/NAV (x)	Yield (%)
6/25	72.9	47.9	7.7	1.15	5.88	6.08	0.93	5.5
6/26e	70.8	49.3	7.9	1.22	6.03	6.32	0.87	5.7
6/27e	73.3	50.4	8.1	1.27	6.18	6.72	0.84	5.8
6/28e	77.1	42.7	8.4	1.31	6.34	6.88	0.81	6.0

Note: EPRA earnings/EPS is shown on a company adjusted basis. This is lower than unadjusted earnings and gives a better guide to dividend affordability. Non-cash IFRS rent smoothing is excluded and interest earned on development funding is included. NAV is EPRA net tangible assets (NTA) throughout this report

Rent growth, asset management and redeployment

Q226 saw the completion of previously announced disposals amounting to c £94m (including a nine-home portfolio) and reinvestment of £45m into three strong operational homes and one new development, described in detail in our previous [note](#). Underpinned by rental growth, NAV per share increased 1.4% and, including DPS paid, the NAV total return was 2.8% (H126: 6.6%). Successful re-tenanting activity has delivered improved rent collection (99%) and the recovery of c £1.9m of historical rent arrears. Excluding c 0.2p of non-recurring recoveries, H126 adjusted EPS was c 3.2p, fully covering DPS of 3.02p. Acquisitions and debt repayment have substantially offset the income loss from asset sales and the company is well-placed for further accretive investment from a strong pipeline of opportunities.

Sustainable earnings and social benefits

In a cyclical commercial property market, healthcare property has provided attractive risk-adjusted returns. The demand for care home places is effectively non-discretionary, driven by a growing elderly population and the need to improve the existing estate, and largely uncorrelated with the economy. Target's uncompromising focus on modern, purpose-built properties underpins its core proposition of generating long-term, sustainable, income-driven returns. All its homes provide full en-suite wet-room facilities (34% for the market) and meet current and expected minimum energy efficiency standards. Such homes are appealing to residents, especially important in maintaining high levels of self-funded occupancy, support operators in providing better, more efficient and more effective care, and provide sustainable, long-term investment income.

Valuation: Attractive yield with NAV upside

The company's FY26 DPS target of 6.03p (+2.5%) represents a yield of more 5.7%. We forecast continuing DPS growth and expect NAV to increase, driven by rent indexation, with a potential additional benefit from any property yield tightening. Meanwhile, the shares trade at a c 11% discount to the Q226 NAV/share of 119.4p.

Q226 NAV and trading update

Real estate

6 February 2026

Price **106.40p**

Market cap **£660m**

Net (debt) as at 31 December 2025 £(136.3)m

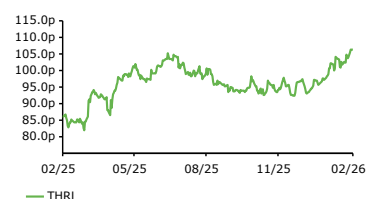
Shares in issue 620.2m

Code THRL

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	8.5	14.2	33.3
52-week high/low		108.2p	77.9p

Business description

Target Healthcare REIT invests in modern, purpose-built residential care homes in the UK let on long leases to high-quality care providers. It selects assets according to local demographics and intends to pay increasing dividends underpinned by structural growth in demand for care.

Next events

H125 results Expected March 2026

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Additional details on the NAV and trading update

While Target is primarily focused on income returns, this also has a positive impact on property valuations and NAV. With the EPRA topped-up net initial yield broadly stable since the end of 2022 (6.23% at end-December 2025), like-for-like rental growth has driven consistent capital returns. In Q226, NAV per share increased by 1.4%, primarily reflecting 1.2% like-for-like property valuation uplift, in turn supported by a 0.9% like-for-like increase in contracted rent and 0.2% from asset management activity. Including dividends paid, the NAV total return was 2.7% (2.8% assuming reinvestment of dividends). During Q2, the positive impact of lease surrender income (see below) substantially offset acquisition costs. Q1 benefited from realised property gains on the portfolio sale.

Based on the unaudited quarterly data, we estimate a 6.6% NAV total return during the first half of FY26.

Exhibit 1: Quarterly NAV total returns

	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Dec-25
Pence per share unless stated otherwise	Q125	Q225	Q325	Q425	Q126	Q226	H126
Opening EPRA NAV per share	110.7	111.7	112.7	113.0	114.8	117.7	114.8
Unrealised property revaluation gains/(losses)	0.9	0.9	0.3	1.4	1.3	1.5	2.8
Realised property revaluation gains/(losses)	0.0	0.0	0.0	0.2	1.4	0.1	1.5
Acquisition costs	0.0	0.0	0.0	0.0	0.0	(0.3)	(0.3)
Gain on surrender premium received	0.0	0.0	0.0	0.2	0.0	0.2	0.2
Movement in revenue reserve	1.6	1.6	1.5	1.5	1.7	1.7	3.4
Dividend paid	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(3.0)
Closing EPRA NAV per share	111.7	112.7	113.0	114.8	117.7	119.4	119.4
EPRA NTA total return (excluding reinvestment of dividends)	2.2%	2.2%	1.6%	2.9%	3.8%	2.7%	6.6%

Source: Target Healthcare REIT data, Edison Investment Research

Taking a longer-term perspective, the consistency of returns stands out. Dividend return has been positive in every year since listing in 2014, contributing around three-quarters of the total return. Capital returns have also been positive in each year with the exception of 2023 when property values across the broader property sector negatively adjusted to higher bond yields. Even in 2023, backed by strong fundamentals, including very long-term indexed rental income, care home properties were nonetheless relatively robust, with Target's portfolio further benefiting from the quality of its assets.

0.9% like-for-like rental growth

Rents are annually indexed to retail price inflation (RPI) (typically capped and collared between 2% and 4% per year) with a weighted average unexpired lease term (WAULT) of 26 years. In Q226, 21 reviews were at an average 3.9%, adding 0.9% to rent roll. The 17 reviews in Q126 were at an average 3.8%.

In December 2025, the 12-month increase in RPI was 4.2% and in January 2026 the UK Treasury consensus forecast for the Q4 CY26 rate was 3.0%. In our forecasts we have assumed average uplifts for the year to June 2026 (FY26) of 3.5%, 3.0% for FY27 and 2.5% for FY28.

A long-term rate of RPI inflation of 3% and stable property yields is consistent with annual NAV total return of 8–9% pa.

Reflecting the timing of accretive capital recycling activity (see below), overall contracted rent roll of £59.5m was 4.5% lower during the quarter.

Capital recycling

Q2 saw the completion of significant, previously announced transactions activity, covered in detail in our previous note, comprising:

- The sale of nine care homes for £85.9m, in line with the exchange announced in Q126. This represented a premium of 11.6% to the carrying value at end-FY25.
- The disposal of an additional property for £8.0m, which had been contractually agreed in August 2025, representing a premium of c 13% to its carrying value at end-FY25 and c 4% to its carrying value at Q126.
- The acquisition of a portfolio of three strongly performing modern operational care homes, and contracted on a forward commitment to acquire a fourth, all in prime Central Scotland locations and all let to an experienced operator, new to Target. The total investment of £45m (including costs) across the two transactions reflected a blended acquisition net initial yield in excess of 6%.

Exhibit 2: Q226 movement in contracted rents

£m		
Opening contracted rent	62.3	
Like for like rental growth	0.6	0.9%
Disposals	(5.4)	-8.6%
Acquisitions	2.0	3.2%
Closing contracted rent	59.5	-4.5%

Source: Target Healthcare REIT

Strong pipeline of further opportunities

With around half of the portfolio sales proceeds deployed, the end-Q226 net loan-to-value ratio was a low 15.2%, well below the c 25% level that Target expects to reach.

End-Q226 drawn borrowings of £204m comprised £200m of fixed rate debt, at an average cost of 3.7%, with a weighted average maturity of almost six years, and a small drawdown on the available £80m revolving credit facilities. Allowing for cash balances, net debt was £136m. Target says that net of all existing commitments, £100m of cash and undrawn debt facilities remain available for deployment, and that the investment manager has an identified pipeline well in excess of this.

The identified assets are evenly distributed between standing assets and forward funds/forward commitments, are at various stages of evaluation and completion and have an indicative blended net initial yield in excess of 6%.

Our forecasts for further deployment, including our assumptions about the timing and mix of assets acquired, are set out in our last published [note](#). In aggregate we allow for a further c £75m of deployment, which is less than the capital available to the company, at a blended net initial yield of 6%, providing upside potential in respect of both the quantum of lending and rental yield achieved.

Rent collection

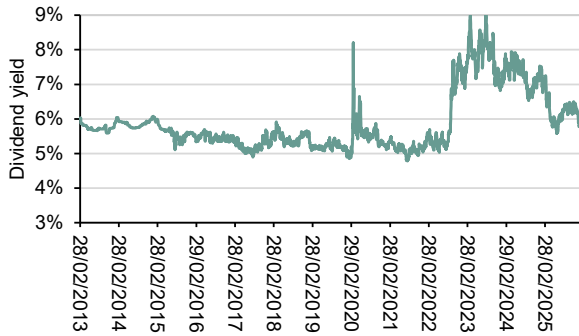
Although the average rent cover ratio was at a record level of 1.9x in FY25, rent collection fell marginally to 97% (98% in Q126), driven primarily by issues with two tenants that have since been resolved. Positively, when issues do arise, Target's high-quality assets, in strong locations, let at sustainable rents have proven to be attractive to existing or alternative tenants. Rent collection is 99% to date for Q226, and an additional £1.9m of historical rent arrears have been collected (of which £0.7m had been provided for in Q126).

The re-tenanting of one asset, representing 1.0% of the total rent roll, was undertaken at an unchanged rental level and without lease incentives. The remaining lease term was extended to 35 years and the completion of the re-tenanting crystallised the payment of a surrender premium of £1.4m from the outgoing tenant, with no negative impact on the property valuation over the quarter.

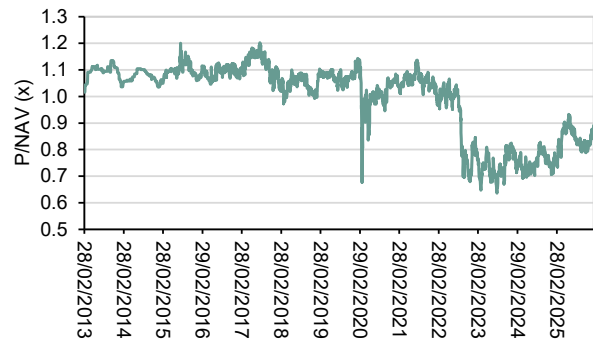
In late September, three homes leased to a single operator were re-tenanted at an unchanged rental level to two existing tenants. Target secured a parent company guarantee from the previous tenant which has supported the collection of the outstanding rent arrears during Q226. All agreed rent arrears were received during the quarter, adding a non-recurring contribution of c 0.11p per share to adjusted EPRA EPS on top of the c.0.07p per share recognised in Q126.

Valuation and returns

Target shares have increased by 15% over the past 12 months, generating a total shareholder return of more than 30%, reflecting growth in NAV and DPS, and continued re-rating towards historical norms. The targeted FY26 DPS of 6.03p (+2.5%) represents a prospective yield of 5.7%, while the shares trade at a discount of 11% to the Q226 NAV per share of 119.4p.

Exhibit 3: Dividend yield history


Source: Company data, Edison Investment Research, LSEG Data & Analytics.

Exhibit 4: P/NAV history


Source: Company data, Edison Investment Research, LSEG Data & Analytics

In the table below we summarise the performance and valuation of Target and a selected group of other longer lease peers. Sector consolidation has reduced the REIT sector, and the peer group has narrowed over the past three years due to corporate activity. The acquisition by PHP of Assura and the acquisition of Care REIT by US-based healthcare real estate investment trust Caretrust REIT have highlighted the undervaluation of the sector.

Target shares have strongly outperformed the peer group and the broader UK property sector over one and three years. On a trailing basis, the company's P/NAV is broadly in line with the peer group, and its dividend yield is lower.

Exhibit 5: Selected peer group performance and valuation

	WAULT (years)	Price (p)	Market cap (£m)	P/NAV (x)	Yield (%)	Share price performance			
						1 month	3 months	1 year	3 years
LondonMetric	16	202	4,745	1.01	6.1	7%	4%	8%	0%
Primary Health Properties	11	106	2,738	0.99	6.7	8%	10%	15%	-8%
Residential Secure Income	N/A	57	106	0.90	7.2	-2%	1%	1%	-28%
Social Housing REIT	23	77	302	0.80	7.3	12%	12%	30%	47%
Supermarket Income	11	85	1,057	0.97	7.2	4%	5%	25%	-16%
Tritax Big Box	11	166	4,472	0.88	4.8	8%	8%	11%	2%
Average	17			0.93	6.8	6%	7%	13%	3%
Target Healthcare	26	106	660	0.89	5.6	8%	12%	24%	26%
UK property sector index		1,316				7%	7%	10%	-11%
UK equity market index		5,598				4%	6%	20%	29%

Source: Source: Company data, Edison Investment Research, LSEG Data & Analytics prices as at 5 February 2026. Note: P/NAV is based on last reported NAV/NTA. Yield is based on 12-month trailing DPS declared. Residential Secure Income is in a process of wind-down

Exhibit 6: Financial summary

Year to 30 June (£m)	2024	2025	2026e	2027e	2028e
INCOME STATEMENT					
Rental income excluding guaranteed uplift	58.6	60.4	60.4	62.9	66.5
IFRS adjustment for guaranteed uplifts	10.9	10.8	10.4	10.4	10.6
Other income	0.0	1.7	0.0	0.0	0.0
Total revenue	69.6	72.9	70.8	73.3	77.0
Gains/(losses) on revaluation	24.7	12.2	29.2	18.3	14.5
Realised gains/(losses) on disposal	1.9	0.0	0.0	0.0	0.0
Management fees	(7.5)	(7.8)	(8.1)	(8.6)	(9.1)
Credit loss allowance & bad debts	(1.0)	(1.6)	(0.9)	(0.9)	(1.0)
Administrative expenses	(3.1)	(3.9)	(3.5)	(3.6)	(3.7)
Operating profit	84.6	71.9	87.5	78.4	77.7
Net finance cost	(11.6)	(11.0)	(9.2)	(9.7)	(10.9)
IFRS net result	73.0	60.8	78.2	68.7	66.8
Adjust for:					
Gains/(losses) on revaluation	(24.7)	(12.2)	(29.2)	(18.3)	(14.5)
Other EPRA adjustments	(1.1)	(0.7)	0.2	0.0	0.0
EPRA earnings	47.2	47.9	49.3	50.4	52.3
Adjust for fixed/guaranteed rent reviews	(10.9)	(10.8)	(10.4)	(10.4)	(10.6)
Adjust for development interest under forward fund agreements	1.8	0.7	0.3	1.6	0.9
Group adjusted earnings	38.0	37.7	39.2	41.6	42.6
Average number of shares in issue (m)	620.2	620.2	620.2	620.2	620.2
IFRS EPS (p)	11.8	9.8	12.6	11.1	10.8
EPRA EPS (p)	7.6	7.7	7.9	8.1	8.4
Adjusted EPS (p)	6.1	6.1	6.3	6.7	6.9
Dividend per share (declared) (p)	5.71	5.88	6.03	6.18	6.34
Dividend cover (EPRA earnings) (x)	1.33	1.31	1.32	1.31	1.33
Dividend cover (Adjusted earnings) (x)	1.07	1.03	1.05	1.09	1.08
BALANCE SHEET					
Investment properties	831.6	840.4	842.3	901.7	933.9
Other non-current assets	91.2	101.9	112.3	122.7	133.3
Non-current assets	922.8	942.3	954.6	1,024.4	1,067.2
Cash and equivalents	38.9	39.6	27.8	29.1	26.1
Other current assets	5.7	4.3	3.7	3.7	3.7
Current assets	44.6	43.9	31.5	32.8	29.8
Bank loan	(240.7)	(240.3)	(197.7)	(237.4)	(248.0)
Other non-current liabilities	(9.9)	(12.7)	(12.7)	(12.7)	(12.7)
Non-current liabilities	(250.6)	(253.0)	(210.4)	(250.1)	(260.7)
Trade and other payables	(27.5)	(20.7)	(21.3)	(22.1)	(23.5)
Current Liabilities	(27.5)	(20.7)	(21.3)	(22.1)	(23.5)
Net assets	689.3	712.5	754.3	784.9	812.7
Adjust for derivative financial liability	(2.8)	(0.6)	0.0	0.0	0.0
EPRA net tangible assets (NTA)	686.5	711.9	754.3	784.9	812.7
Period end shares (m)	620.2	620.2	620.2	620.2	620.2
IFRS NAV per share (p)	111.1	114.9	121.6	126.6	131.0
EPRA NTA per share (p)	110.7	114.8	121.6	126.6	131.0
EPRA NTA total return	11.4%	9.0%	11.2%	9.1%	8.5%
CASH FLOW					
Cash flow from operations	52.2	50.8	48.4	50.5	54.0
Premium paid for interest rate cap	0.0	0.0	0.0	0.0	0.0
Net interest paid	(9.9)	(9.7)	(8.4)	(9.1)	(10.2)
Tax paid	0.0	0.0	0.0	0.0	0.0
Net cash flow from operating activities	42.3	41.1	40.1	41.5	43.8
Purchase of investment properties	(40.9)	(13.0)	(58.6)	(41.0)	(17.7)
Disposal of investment properties	44.3	9.8	85.9	0.0	0.0
Net cash flow from investing activities	3.4	(3.2)	27.3	(41.0)	(17.7)
Issue of ordinary share capital (net of expenses)	0.0	0.0	0.0	0.0	0.0
(Repayment)/drawdown of loans	13.0	(1.0)	(42.0)	39.0	10.0
Dividends paid	(35.2)	(36.1)	(37.2)	(38.1)	(39.1)
Other	0.0	0.0	0.0	0.0	0.0
Net cash flow from financing activities	(22.2)	(37.1)	(79.2)	0.9	(29.1)
Net change in cash and equivalents	23.5	0.8	(11.9)	1.3	(3.0)
Opening cash and equivalents	15.4	38.9	39.6	27.8	29.1
Closing cash and equivalents	38.9	39.6	27.8	29.1	26.1
Balance sheet debt	(240.7)	(240.3)	(197.7)	(237.4)	(248.0)
Unamortised loan arrangement costs	(2.3)	(1.7)	(2.4)	(1.7)	(1.1)
Drawn debt	(243.0)	(242.0)	(200.1)	(239.1)	(249.1)
Net cash/(debt)	(204.1)	(202.4)	(172.3)	(210.0)	(223.0)
Gross LTV	26.7%	26.0%	21.2%	23.6%	23.6%
Net LTV	22.5%	21.8%	18.3%	20.7%	21.1%

Source: Target Healthcare REIT historical data, Edison Investment Research forecasts.

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