Healthcare REITs

Healthcare earnings recap weeks 2&3: WELL, VTR, & MPW

Price Objective Change

26 February 2024

Equity
United States
REITs

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WELL: Two underappreciated aspects of 4Q results

Two key takes from WELL's 4Q results: (1) occupancy growth accelerated across a seasonally soft quarter and into January and (2) WELL acquired a roughly $1B portfolio of Wellness Housing (55+ housing). On the first point, we view this as a sign that improving demographics are beginning to show up in results. On the latter, we believe investors are underappreciating the opportunity set that WELL has within Wellness housing. We believe Wellness Housing will become the third pillar of WELL's business in the years ahead. We reiterate Buy on WELL.

VTR underwhelms again but SH is a strong tailwind

The main debate after VTR's 4Q results and initial 2024 guide is whether or not management provided a conservative guide. After speaking with management we believe the main area of conservatism is within the interest expense guide. The rest of the guide appears to be realistic. We have lowered our growth trajectory in the out years. Our revised 2025 AFFO growth is 5.1% (previously: 11.1% and the Street's 2.9%). We reiterate Buy given VTR's senior housing (SH) exposure.

MPW: the road ahead remains tough; reiterate U/P

We reiterate Underperform on MPW. We remain concerned about MPW's dividend. Management flagged that asset sales will be the key to covering the dividend. "The dividend is not dependent on Steward's rent. It's more dependent on our ability to close some of these liquidity transactions." We are uncertain about MPW's ability to close on dispositions in a timely manner given prior delays in asset sales and the capital market backdrop. We assume a 25% cut to the dividend. In addition, there are concerns on the health of Steward (top tenant) which was moved to a cash basis as it struggles to pay rent.

PO and estimate changes following 4Q23 earnings

After updating our model for 4Q23 earnings and 2024 guide, we are lowering our PO for VTR to $49 from $53. We derive our PO from applying a AFFO multiple of 20x (previously 20.5x) to our 2024E AFFO estimate of $2.44 (previously $2.52). We believe the multiple is warranted given current market conditions. Also, after updating for 4Q23 earnings, we are lowering our PO for MPW to $4.05 (previously $5.00). Our PO trades in line with our forward NAV. We derive our NAV by applying a 9.5% (unchanged) cap rate to our forward NOI of $991M.

Exhibit 1: Summary of PO changes
Updated price objective after review of models

Ticker	Old PO	New PO	QRQ	Price
VTR	$53.00	$49.00	B-1-7	$44.16
MPW	$5.00	$4.05	C-3-8	$3.84

Source: BofA Global Research, prices as of 2/23/2024

BofA GLOBAL RESEARCH

See inside for Key terms
For more details see our Healthcare REIT primer here.

Contents

Key comments from the earnings calls

WELL key quotes from the earnings call on 2/14

- **Occupancy growth**: “In terms of our senior housing operating portfolio, I was particularly encouraged by the occupancy growth in fourth quarter, which is seasonally not the strongest period. The portfolio saw 110 basis points of sequential occupancy gains, which translate into 330 basis points year-over-year occupancy growth. And the 330 basis points year-over-year occupancy growth is by far the highest level we have ever achieved in the fourth quarter of any year in our recorded history. Just as compelling is that looking at the intra-quarter trends year-over-year occupancy growth strengthened each month, which is unusual given the aforementioned seasonality of the business.”

- **Acquisition pace:** "The torrid pace of investment activity in Q4 has continued with 2024 starting off with a bang. In fact, I do not recall having ever been this busy in first quarter on the deal front."

- **RevPOR and ExpPOR:** “The 23.7% fourth quarter year-over-year NOI increase in our same-store housing operating portfolio was a function of 9.7% revenue growth driven by the combination of 5.5% RevPOR growth and 330 basis points of average occupancy gains and moderating expense growth. Expenses remain in control, coming in at 5.7% for the quarter over the prior year's quarter. The strong revenue growth and expense control led to continued margin expansion of 290 basis points. Again our ExpPOR growth for the quarter set a record for the lowest growth in recorded history at 1.7%. All three regions continue to show strong same-store revenue growth starting with the US at 9.4%, Canada and the UK growing at 9.7% and 14.1% respectively. The strong revenue growth in each region, combined with the expense control have led to fantastic NOI growth in the US, Canada and the UK of 21.8%, 21.7% and 75.5% respectively.”

- **Integra portfolio update:** “I am also excited to provide an update on the performance of our Integra portfolio, where we have continued to see a sequential improvement in performance. The 140 building, that first transition to regional operators. We have seen annualized EBITDARM improve by more than $300 million, from losing more than $85 million in the three months prior to the transition to positive $228 million in the third quarter. While there continues to be meaningful remaining upside in performance beyond the current state I am pleased to announce that EBITDARM coverage is now greater than 1.5 times.”

- **4Q23 investments**: “By acquiring these assets at an attractive basis and consolidating operations under the same operator, we are able to reap the operating benefits of regional density. In the fourth quarter alone, we closed on nearly $3 billion of investments while remaining targeted and disciplined. We acquired 44 senior housing properties from 11 different sellers growing our relationship with seven existing operating partners. We acquired roughly 8,800 units with an average age of around seven years at an average basis of $222,000 per unit and approximately 40% discount to replacement cost. These transactions have a low 6s year-one yield and are expected to generate unlevered IRRs, north of 10%.”

- **Affinity Living Communities**: "Looking ahead to 2024, we are off to an exciting start. We are delighted to announce our strategic partnership with Affinity Living communities in which we are entering into a long-term programmatic development relationship and acquiring the Affinity portfolio of 25 active adult properties with an average age of less than eight years for $969 million or $233,000 per unit after allocating the NPV of interest cost-savings to the assumed below-market debt."

- **2024 FFO Guidance**: "We introduced an initial full-year 2024 outlook for net income attributable to common stockholders of $1.21 to $1.37 per diluted share and normalized FFO of $3.94 to $4.10 per diluted share, or $4.02 at the midpoint. As mentioned in our release last night, our 2024 guidance contemplates no HHS or other government grants. So after adjusting for $0.03 received in 2023, the midpoint of our initial guidance represents 11.5% year-over-year growth."

- **Double digit NOI growth:** "We should have double-digit NOI growth for years to come. I hope that sort of answers your question. We have no hubris of sort of knowing what we don't know, but we think is also this idea that because our business has done so well for last two years, it has to go down, it has to meaningfully decelerate. It sort of reminds me that perhaps we should have more humility of what we don't know. We'll see how it plays out, we'll see what market gives us."

- **Expectations of growth going forward:** "But if you look at all other industry data that you will see our portfolio has meaningfully outperformed both in rate growth as well as occupancy growth, but what's new about that? But you can probably look at the NIC data and others and decide that they get to that point. But as I said, we don't know what the future will give us. What we endeavor what our promise to you that will put 200 person effort to outperform the market and that's what we're trying to do. And so far what I've seen, I mean, John mentioned a stat that if we do achieve our NOI growth guidance in the SHO portfolio this year. There is no guarantee we will, but if we do that will be 75% compounded growth over three years. There is-- I don't believe there's any precedents of that in a large, broad sort of your portfolio. So we are meaningfully outperforming the market and that gap is widening and I think it will continue to widen."

- **Double digit revenue growth**: "We'll see how this plays out, but we think, it's our guests as we sit here today and nothing but a guess that will be largely in the same ballpark up close to double-digit revenue growth that we have seen last year."

VTR – key quotes from the earnings call on 2/15

- **2024 earnings guidance:** "Notably, our projected 2024 normalized FFO growth of 5% per share puts us in the top 20% of all REITs that have issued guidance to-date. In 2024, we expect to benefit from steady growth from our outpatient medical research and triple-net lease portfolios. As we look into 2025, we have two large lease renewals, one with Brookdale and Senior Housing and another with Kindred for a portion of our LTAC."

- **Brookdale and Kindred comments:** "In Brookdale's case, our communities are enjoying positive operating trends and they have significant net absorption potential. In Kindred situation, rent coverage remains challenged and it's too early to say what the ultimate outcome in 2025 will be. Kindred remains focused on performance improvements that could benefit 2024 and 2025 financial results. In all cases, we are fully prepared to maximize NOI over time."

- **Positive SHOP growth:** "In SHOP, January is already starting positively with 200 basis points of year-over-year same-store occupancy growth. In 2024, we expect year-over-year normalized FFO and SHOP same-store cash NOI growth to accelerate in the second half with a SHOP NOI exit run rate that should support continued SHOP growth in 2025 and beyond."

- **Double digit SHOP growth:** "Looking forward to 2024. We are excited to continue on our multi-year growth trajectory as we are expecting our third consecutive year of double-digit NOI growth in our same-store SHOP portfolio."

- **RevPOR growth**: "The key assumptions that drive the midpoint of our range are average occupancy growth of about 250 basis points, RevPOR growth of about 5%, which puts the total revenue growth around 8%."

- **$300M pipeline**: "Our pipeline is growing as we have several interesting potential investments in our sites. Our team is actively working on transactions exceeding $300 million that meet our criteria and I look forward to adding to that as the year progresses."

- **Refinancing in 2024:** "So I mentioned the $0.11 year- over-year, a big piece of that is refinancing our debt into a higher rate environment. We have $1.2 billion of debt coming due this year, and then you call it in the mid threes kind of range from having issued that debt quite years ago. So refinancing that in the current environment is dilutive. The volume of that, also we had the year-over-year impact of ELP transaction mid year last year. So we have effectively the first half of that that we're lapping maybe -- in '24. So together those two things describe the increase year-on-year on interest expense. I'd note we've included interest expense guidance, which is new to us in order to try to help analysts model that, because I know it can be tricky, but those are the drivers."

- **Occupancy pick up:** "We had acceleration of move-ins and occupancy in the third quarter, which led to solid growth in the fourth quarter, which was at 170 basis points year-over-year. In January, we're already starting at 200 basis points of occupancy year-over-year, and we are seeing better-than-typical seasonal results ending the fourth quarter and starting the year so far, which is really encouraging and supportive of the 250 basis points at the midpoint that were included in our SHOP guidance."

MPW – key quotes from the earnings call on 2/21

- **Capital allocation strategy:** "Our primary focus right now is executing a capital allocation strategy that will aim to generate at least $2 billion of additional liquidity in 2024 and help us satisfy our debt maturities for several years into the future."

- **Steward update:** "Unfortunately, since that time, Steward's cash collection challenges have become more pronounced and the resulting changes to vendor payment terms have put pressure on supplies, constraining Steward's ability to perform higher margin surgeries that are a key driver of cash flow. As a result, in early January, we shared that we have been working with Steward and its advisors to develop an action plan to strengthen their balance sheet, liquidity, accelerate recovery of unpaid rent, and ultimately significantly reduce our exposure to Steward. This plan contemplates a wide range of strategic transactions, including transitioning certain hospitals to new tenants and selling its managed care business called Stewardship."

- **Bridge loan**: "As we previously disclosed in January, we funded a $60 million bridge loan, which provided an exact MPT, a second lien on Stewardship's business subordinate only to Steward's ABL lenders. We also consented to a limited and tapering deferral of rent until the end of June or the completion of the anticipated asset sales."

- **Financial covenants:** "We have significant headroom in our own financial covenants, either with the bank group or with the unsecured bond and interest."

- **Additional funding to Steward**: "In the fourth quarter, Steward paid approximately 25% of all rent and interest owed to MPT. In our press release this morning, we shared that MPT and certain lenders in the ABL group are negotiating a new bridge facility under which each party would fund an additional initial $37.5 million to Steward, of which MPT has already funded $20 million. Any additional funding is entirely dependent on Steward's achieving significant milestones towards optimizing the amount and timing of MPT's recoveries."

- **Prospect update**: "Turning to Prospect. Importantly, in California, Prospect is current on all rent and interest due through January 2024. Though they have not yet paid February's rent, Prospect's EBITDARM has improved year over year, driven by increased admission volumes, higher Medi-Cal reimbursement rates and lower supplies costs. We are encouraged by their most recent December trailing 12 months rent coverage, which was above one time."

- **Debt maturities**: "As we realize capital from these transactions, we expect to immediately reduce our debt maturities. In 2024, we have only two maturing loans, approximately $300 million in May and $130 million in December. In the interim, we will reduce our revolver balances, which in recent months have carried an interest rate of around 6.9% for the US dollar borrowings. In 2025, we will have roughly $900 million in bank debt and $550 million in unsecured notes maturing. And as just noted, we expect our planned sales and secured financing transactions will provide more than sufficient proceeds to satisfy these maturities."

- **Asset sales:** "During the fourth quarter, we closed on the sale of our four remaining Australian facilities for approximately $305 million, or a 5.7% CAP rate. And in our press release earlier this morning, we announced another $480 million of agreed upon liquidity transactions, including the sale of five hospitals to Prime at a 7.4% economic cap rate, as well as the sale of our syndicated term loan investment in MEDIAN, the parent company of Priory Group."

- **Sale to Prime**: "This morning, we announced that we have so far agreed to transactions aggregating almost 25% of that initial target. The largest of these transactions is our agreement to sell two hospitals to Prime for $350 million. Importantly and encouragingly, the economics of the transaction imply a capitalization rate of about 7.4% that is obviously much better than what our share price implies or even what some investors believe our secured financing rate would be."

ARE – key quotes from the earnings call on 1/30

- **Supply and TI's**: "Yeah, hard to predict, but certainly the effects of 2023's supply has been seen. Net effective rents, we've seen TI's increase remarkably. We've talked about that before. TI's aren't going to go any further up because they're already pretty high. I'd say there's some pricing power to the tenant if they've got a very large requirement. But outside of that, I think things have been holding relatively well."

- **Occupancy expectations**: "We expect same-property results to accelerate in the second half of 2024, driven by anticipated solid rental rate growth, occupancy growth in the second half of the year, coupled with the four properties I just mentioned, as well as contractual rent increases and the burn-off of contractual free rent from executed leases. We expect solid same-property growth for 2024, consistent with what we provided at our Investor Day in December, of 1.5% and 4% on a cash basis at the midpoint of our guidance range."

- **Leasing for 2024**: "we've got about 3.4 million of lease rolls next year. But after you back out the space that we've anticipated will go dark, that will go into redevelopment or development, that only leaves you with about 1.8 million square feet that's not resolved. So, I think that number feels pretty manageable relative to our historical run rate on leasing."

- **SS NOI Growth**: "We expect solid rental rate growth on lease renewals and re-leasing of space for 2024 at a midpoint of 15% and 9% on a cash basis, with some variation from quarter to quarter. The overall mark-to-market for cash rental rates in our -- related to our in-place leases for the entire asset base remains solid at 14%. Our non-revenue enhancing expenditures, including TIs and leasing commissions on second-generation space, have averaged 15% of NOI over the last five years and remained low during 2023 in the 12% to 13% range."

- **Deliveries**: "We expect tremendous growth in incremental annual net operating income on a cash basis of $114 million upon the burn-off of initial free rent related to recently delivered projects with a weighted average burn-off period of about 10 months. And as Peter highlighted, we have 5.7 million rentable square feet of projects that are 60% leased or negotiating, and projects that will generate $495 million of incremental annual net operating income over the next four years."

- **Demand expectations**: "We believe the beginning of 2023 was the low point for demand and are pleased to see that demand for Greater Boston, San Francisco Bay, and San Diego are all up year-over-year, a good sign, since this does not include a number of projects that are on hold as management teams and Boards remain cautious. However, that should change soon."

- **Peak deliveries in 2024:** "As we turn the page on 2023, we expect 2024 to be the peak year for new deliveries, then begin to dissipate in 2025."

- **Boston supply**: "In Greater Boston, unleased competitive supply estimated to be delivered in 2024 is 7% of market inventory, a 0.9% increase over last quarter, not due to new projects, but because of project deliveries being pushed from 2023 to 2024. In 2025, the unleased competitive supply will increase market inventory by another 2.5%, an expected slowdown from 2024 levels."

- **SF supply**: "In San Francisco Bay, unleased competitive supply estimated to be delivered in 2024 is 10.7% of market inventory, which is a 2.7% increase. Like Greater Boston, this increase was driven by projects that were expected to deliver in 2023, but are taking longer than expected. In 2025, the unleased competitive supply will increase market inventory by much less at 2.2%, a good sign, but still a 1% increase over last quarter due to a new project breaking ground in Menlo Park."

- **San Diego supply:** "In San Diego, unleased competitive supply estimated to be delivered in 2024 is 6.8% of market inventory, a slight decrease from last quarter due to an increase in supply from projects being pushed from 2023 to 2024, offset by leasing in those projects. In 2025, the unleased competitive supply will decelerate to 2.7% of market inventory."

- **Strong leasing efforts 2024**: "Two key leases in fourth quarter, which are noted in the supplement, the lease to Novo Nordisk and the lease to Cargo Therapeutics. 2023, we had a remarkable 76% of leasing with existing tenants, and we look forward to a strong 2024 leasing effort and expect a handful of significant leases to mature soon."

- **Pfizer: "**want to comment on the sale of our 42nd Street asset in New York City, leased to Pfizer through mid-year 2024. They previously vacated and moved their headquarters to another site in New York City. We made a strategic decision not to go forward with the contemplated redevelopment of that building, due in part to state and local -- to challenging state and local governmental policies."

- **M&A lifecycle**: "Another 2023 biopharma trend was M&A. Excluding mega-mergers over $50 billion, 2023 set a new high watermark, with $159 billion in acquisitions. These were largely sub-$10 billion deals, driven by pharma's need to bolster pipelines, as they face steep revenue loss due to patent expirations. As M&A dollars are recycled back into the industry, it creates a positive cycle of innovation as scientists and entrepreneurs start their next new venture. Altogether, the M&A lifecycle is an important driver of demand across our regions."

PEAK- key quotes from the earnings call on 2/9

- **MOB supply/demand** "I want to share some thoughts on the operating environment for the two largest segments, starting with Outpatient Medical, where the sector is benefiting from demand exceeding supply. We have two decades of operating history in the sector and in 2023, we were at or near all-time highs for leasing volume, retention, renewal spreads, and same-store growth."

- **Life Science outlook**: "Let me turn to our Lab business. The fundamental drivers of long-term growth are solidly intact with both drug approvals and new drug applications at or near all-time highs. That means R&D funding is paying dividends, creating a virtuous cycle. Big Pharma is ramping up partnership deals and M&A to replace looming patent expirations, and companies with good data have ready access to capital. At the same time, venture capital deployment and the IPO market remain soft and Boards are deferring leasing decisions when possible. Those dynamics will eventually turn in our favor and we'll be well-positioned to capitalize."

- **Delivery reduction in 2025**: "We can also comfortably underwrite a massive reduction in new deliveries starting in 2025. Fortunately, even during the market exuberance for life science, we stuck to our strategy. As a result, we're highly concentrated in five of the best submarkets in the country, where we have significant scale and deep relationships to capture leasing demand."

- **FFO guidance**: "With all that said, our initial outlook for 2024 is as follows. FFO as adjusted ranging from $1.73 to $1.79 per share, which includes merger-related benefits of approximately $0.02 to $0.03, AFFO ranging from $1.50 to $1.56 per share, which includes merger-related benefits of approximately $0.05, and total same-store growth ranging from positive 2.25% to positive 3.75%."

- **DOC merger:** "First, based on the March 1st closing date, our outlook is for two months, standalone Healthpeak, and 10 months combined Healthpeak and DOC. The result of this is a weighted average share count of approximately 690 million for full-year 2024, assuming no additional equity issuances. Second, we have identified sources for all of our capital needs and have no remaining funding requirement in 2024. We upsized our five-year term loan to $750 million and recently swapped the entire amount to a fixed rate of 4.5%."

- **Callan Ridge JV**: "Last month, we closed on our well-received Callan Ridge joint venture, generating $130 million of proceeds and eliminating $22 million of future TI spend. We have $250 million of projected retained earnings given our well-covered dividend and we expect some seller financing debt repayments. These proceeds will be used to fund our development and redevelopment pipeline, repay $210 million of DOC's private placement notes, and fund all of our transaction costs."

- **G&A Guidance:** "G&A is expected to range from $95 million to $105 million, which compares to standalone peak at approximately $95 million for full-year 2023. All in, our G&A is only increasing by approximately $5 million at the midpoint, despite inflation and our asset base increasing by $5 billion."

- **Debt mark to Market:** "our current FFO outlook includes a negative $0.03 mark-to-market on the $1.9 billion of DOC debt that we will assume. Notably, we do not add back this headwind to FFO as adjusted.....we do not include any benefit from the Graphite Bio termination fee in our FFO as adjusted."

- **Same-Store growth outlook**: "We see Outpatient Medical ranging from positive 2.5% to positive 3.5%. Fundamentals in Outpatient Medical continue to improve versus historical norms, including higher tenant retention, increased rent mark-to-market, and increased escalators. Our Outpatient Medical same-store NOI for 2024 is approximately $825 million or 60% of the overall pool. We have included the DOC portfolio in our same-store pool for 2024, given the size and strategic nature of the merger."

- **Lab same-store growth:** "We see same-store growth ranging from positive 1.5% to positive 3%. Lab growth is driven by contractual rent escalators, positive rent mark-to-market, and the benefit of increased NOI from internalizing operations in San Francisco and San Diego. Not surprising, we do have some offsets, including a modest decline in occupancy relative to 2023, and timing of free rent, which naturally fluctuates year-to-year and is a headwind, particularly in the first quarter."

- **Developments pushed out:** "I can certainly start with that and I'll hit on the biggest ones. Vantage, we actually delivered a portion of that late last year. And then the initial occupancy is for what's remaining and we do have another lease with Astellas that's expected to start later this year. So that's really the reason why that got pushed back a little bit, it's because we delivered a portion of that."

- **Sorrento and Amgen**: “So just on Amgen, Sorrento, and Vantage alone, you're talking about $50 million, $60 million of NOI upside. I don't know if that's '25 or '26, but we do think it's achievable. Those are all Class A assets. Now, there's a cost of capital, so maybe subtract a little bit of that upside from an earnings standpoint, but it's substantial. So our Lab business two years ago was kind of at full utilization, for lack of a better word, and today, there's a fair amount of upside for us to go recapture.”

- **MOB growth expectation:** "I mean, it's really been a 2% to 3% growth business for the last decade, we do see that accelerating. It's not going to 10%, but we do think it's going to improve for the forward 5 to 10 years versus the previous 5 to 10 years, just given supply demand construction costs and therefore, our ability to push rents. So our guidance this year is at the very high end -- actually well above the high end of any guidance we've given in that segment historically. And we have a pretty good track record of beating our same-store guidance and our earnings guidance."

- **MOB occupancy expectations:** "We're at 85% occupancy today. I would think we could get back into the 90s. In that portfolio, it's performing well.

- **Escalators**: "But I think we said historically, DOC has lower in place escalators in Healthpeak, but that's converging over time as they sign new leases with, as John said, 3% or better escalator. So I'm guessing it'd be a little bit lower, but not materially. I think they said numerous times their growth rate in 2023 was impacted by some unique asset specific events and proactive termination. So I would expect their growth rate to mirror or closely mirror the Healthpeak growth rate going forward."

- **Occupancy growth**: "Well, we still see some occupancy growth in 2024. Rental rates will grow, but more in the mid single-digits as opposed to high single-digits, just given the fundamentals in that sector. Then obviously, we've had a huge benefit from contract labor coming down. Over the past 18 months, we're largely through that benefit. We have very little contract labor in the portfolio today. So you just lose a lot of that benefit in same-store. So I mean, that's what's happening at the property level."

OHI- key quotes from the earnings call on 2/8

- **Leverage update**: "As of year end 99% of our $5.1 billion in debt was at fixed rates, and our net funded debt to annualized adjusted normalized EBITDA was 4.96 times and our fixed-charge coverage ratio was 3.8 times."

- **2024 guidance**:" for the first time since the start of the pandemic, we are providing full year adjusted FFO guidance of between $2.70 to $2.80 per share. We're assuming no change in our revenue related to operators currently on an accrual basis of revenue recognition or stated another way, no additional operators being placed on a cash basis for revenue recognition. We're assuming a timely completion of operator restructurings, which includes both the LaVie and Guardian portfolios and Maplewood's eventual return to full contractual rent. We're assuming $94 million in asset sales, related to the facilities classified as held-for-sale as of year end. We've included the annual impact of new investments completed in 2023, as well as $27 million of new investments completed year-to-date."

- **Lavie and Guardian**: "As stated in yesterday's earnings press release, in the fourth quarter, LaVie paid $5.3 million in rent, and in January, LaVie paid approximately $1.45 million in rent. We utilized Guardian's $4.4 million security deposit to record fourth quarter rent. The remaining $60,000 in security deposit was exhausted in January and no additional cash rent was received from Guardian in January."

- **Occupancy**: "Occupancy for our overall core portfolio has continued to recover from a low of 74.6% in January of 2022 to 80.2% as of mid-January 2024 based upon preliminary reporting from our operators. For comparative purposes, occupancy for our core portfolio was 83.2% for the fourth quarter of 2019, just prior to the onset of the COVID pandemic."

- **Acquisition cash yield**: "So most of the yields that we're underwriting, too, are 10% or even north. All the fourth quarter yields on those investments that you highlighted were 9%. Some of those deals were a long time in the making that's been in the pipeline for a while. So we had quoted a price some quarters back. The overall yield for the year is north of 10%. I think it's 10.4% blended, so. And that's pretty much what we're quoting today, is 10% in north."

- **Full rent assumption**: "we return to happily so our adjusted FFO guidance based on historical practices and gave a little bit wider range because we did mention we have LaVie and Guardian in the transition restructuring mode, and Maplewood needs to return to paying full contractual rent. So at the low end, it means it takes a little bit longer on those transactions and the repayment. And at the high end, it's just sooner. I mean, it's kind of that simple."

- **Maplewood rent escalators**: "the January cash is a good run rate to start, but it doesn't reflect the impact of rate increases for '24, which the Maplewood team expects to be 7% to 8% net. So that's -- we'll see a pickup there as we start to march through the early part of the year, [ph]pick room."

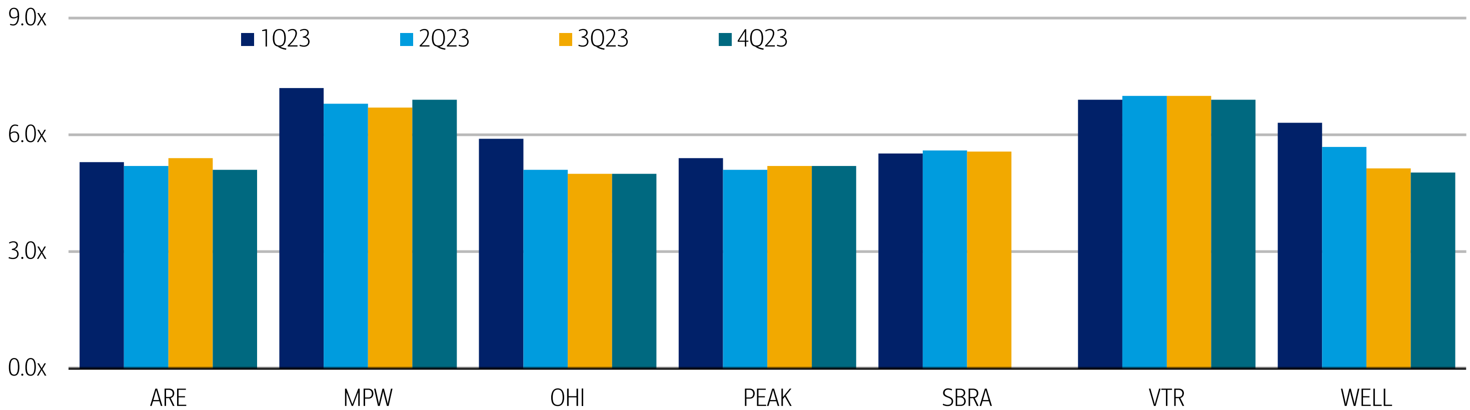
- **Occupancy and staffing increase**: " I think, what we're hearing from our operators is mostly the fact that the staffing is easing up. Right. Some of the agencies has come down. They're getting more permanent staff in. They're building up their cultures again, and it's just easier to have staff in the building and increase that occupancy. That's really what's driving it."

- **Investment pipeline and yield**: "I will say that we are seeing a very active pipeline at this point, where I've been as active since -- before the start of COVID. So we are, as we pointed out, seeing a number of loan requests, but we're sort of able to pick and choose the right deals, and we are able to -- we are holding pretty firm on our 10% yield requirements."

- **Dividend coverage:** " So based on the assumptions in the forecast, I would assume that that's going to run anywhere from $0.02 to $0.04 less per in -- per quarter based on AFFO guides, and there's a possibility based on given the range and what we see, but really timing is unknown, that we could, on a run rate basis, cover the dividend in the late second quarter. But again, timing is the key there."

Leverage

Exhibit 2: Reported leverage metrics
Reported leverage metrics



Company Filings
WELL & SBRA: Net Debt to Adjusted EBITDA; ARE: Net debt and preferred stock to Annualized Adjusted EBITDA; DOC: Net Consolidated Debt to Consolidated Adjusted EBITDAre; MPW: Adjusted Net Debt to Annualized EBITDAre; OHI: Net Funded Debt to Adjusted Normalized EBITDA; PEAK: Net Debt to Adjusted EBITDAre; VTR: Net Debt to Adjusted Pro Forma EBITDA

BofA GLOBAL RESEARCH

PO & Estimate changes

Exhibit 3: Summary of AFFO estimate changes
Updated published estimates after review of models

	2023		2024		2025		2026		2027	
Ticker	**Old**	**New**	**Old**	**New**	**Old**	**New**	**Old**	**New**	**Old**	**New**
VTR	$2.31	$2.31	$2.52	$2.44	$2.80	$2.57	$3.22	$2.79	$3.72	$2.96
MPW	$1.28	$1.30	$1.21	$0.86	$1.26	$0.96	$1.09	$0.84	$0.97	$0.73

Source: BofA Global Research

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Exhibit 4: Summary of PO changes
Updated price objective after review of models

Ticker	Old PO	New PO	QRQ	Price
VTR	$53.00	$49.00	B-1-7	$44.16
MPW	$5.00	$4.05	C-3-8	$3.84

Source: BofA Global Research, prices as of 2/23/2024

BofA GLOBAL RESEARCH

- VTR (B-1-7): After updating our model for 4Q23 earnings and 2024 guide, we are lowering our PO to $49 from $53. We derive our PO from applying a AFFO multiple of 20x (previously 20.5x) to our 2024 AFFO estimate of $2.44 (previously $2.52). We believe the multiple is warranted given current market conditions.

- MPW (C-3-8): After updating for 4Q23 earnings, we are lowering our PO for MPW to $4.05 (previously $5.00). Our PO trades in line with our forward NAV of $3.70 We derive our NAV by applying a 9.5% (unchanged) cap rate to our forward NOI of $991M.

Exhibit 5: Companies Mentioned
These are the REITs mentioned in this report

Ticker	PO	Rating	QRQ	Price
ARE	130.00	BUY	B-1-7	$121.93
WELL	96.00	BUY	B-1-7	$93.41
MPW	4.05	UNDERPERFORM	C-3-8	$3.84
OHI	31.00	NEUTRAL	B-2-8	$31.12
PEAK	18.00	UNDERPERFORM	B-3-7	$16.63
SBRA	16.00	BUY	B-1-7	$13.97
VTR	49.00	BUY	B-1-7	$44.16

Source: BofA Global Research, prices as of 2/23/2024

BofA GLOBAL RESEARCH

Key terms:

ABL: Asset based lending

EBITDAR: earnings before interest, taxes, depreciation, amortization, and rent

EBITDARM: earnings before interest, taxes, depreciation, amortization, rent and management fees.

ExPOR: Expense per occupied bed

FFOAA: Funds from operations as adjusted

HC: Healthcare

MOB: Medical office building

NOI: Net Operating Income

LS: Life Science

REVPOR: Revenue per occupied bed

RIDEA: REIT Investment Diversification and Empowerment

SHOP: senior housing operating portfolio

SS: same store

SH: senior housing

SNF: skilled nursing facilities

US: United States

Price objective basis & risk

Alexandria Real Estate Equities (ARE)

Our $130 price objective for ARE is derived from a 10% discount to our forward NAV to reflect the strength of ARE's platform in the life sciences real estate sector. We apply a 6.7% cap rate to our forward NOI estimate of $2.5B to calculate our NAV. We use a 6.7% cap rate for ARE based on our view of interest rates over the next year, comparable transaction comps, and the market exposure of ARE. Upside risks to our PO are capital raises, operating conditions and development yields above our expectations. Downside risks are operating conditions and yields below our expectations. ARE is also exposed to the risks of the biotech sector such as private and public funding, regulatory changes and the FDA approval process. Further, a prolonged period of tight credit market conditions could weigh on access to capital, borrowing costs, and direct real estate values.

Healthpeak Properties, Inc. (PEAK)

Our $18 price objective assumes the stock trades at a 20% discount to our forward NAV estimate. We apply a 7.4% cap rate to our forward NOI estimate of $1.8B. We use a 7.4% cap rate for PEAK based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of PEAK. We also apply a 20% discount to our forward NAV estimate to account for a tenant that filed for bankruptcy. Upside risks to our PO are better-than-expected senior housing, medical office or life science performance, higher-than-forecast acquisition volumes and lower interest rates. Downside risks to our PO are further public-pay reimbursement cuts, a more competitive acquisitions environment, weaker-than-expected senior housing fundamentals, increased tenant credit risk, and rising interest rates.

Medical Properties Trust, Inc. (MPW)

Our $4.05 PO trades in line with our forward NAV estimate of $3.70. We derive our NAV estimate by applying a 9.5% cap rate to our forward NOI estimate of $991.1m. We use a 9.5% cap rate based on our outlook for interest rates and current market/transaction comps. Risks to our price objective are more or fewer acquisitions, acquisition cap rates vs MPW's cost of capital, tenant issues including potential bankruptcies, and changes in the healthcare market that makes hospitals more or less profitable.

OMEGA Healthcare (OHI)

Our $31 price objective for OHI is derived by applying an adjusted funds from operations (AFFO) multiple to our 2024 forward AFFO estimate. We use a target AFFO multiple of 12.0x to our 2024 AFFO estimate, to be slightly above OHI's historical average of 11x.

Risks to our price objective are increased government reimbursement pressure, better-/weaker-than-expected SNF demand from the aging of America, operator issues may rise again, volume/pricing of acquisition opportunities, and more / less government support. The pace of occupancy recovery post COVID is also a key risk.

Sabra Health Care (SBRA)

Our $16.00 price objective for SBRA is derived by applying a 11.0x AFFO multiple to forward 2023 AFFO estimate as we look to earnings growth beyond 2022. We believe a 11.0x AFFO multiple is more consistent with SBRA's recent historical AFFO multiple which we think it deserves due to its similar growth rate. Upside and downside risks to our price objective are more / less acquisition, cap rates vs. SBRA's cost of capital, shifting industry trends, demand vs. supply for senior housing assets and interest rates.

Ventas, Inc. (VTR)

Our $49 price objective is derived by applying an AFFO multiple to our 2024 forward AFFO estimate as we look to a more normalized earnings period. We apply a target

AFFO multiple of 20x, which reflects the current market conditions.

Upside risks to our price objective are better-than-expected senior housing fundamentals, declining interest rates, and lower tenant risk.

Downside risks to our price objective are weaker-than-expected senior housing fundamentals, increased tenant credit risk, and rising interest rates

Welltower (WELL)
Our $96 price objective for WELL is now derived by applying a AFFO Multiple to our 2024 forward AFFO estimate as we look to a more normalized earnings period. We use a target AFFO multiple of 26.5x and we believe this is warranted given: (1) depressed earnings due to the COVID pandemic, (2) our expectations of a multi-year period of above average earnings growth driven by a rebound in senior housing as the COVID pandemic fades. Upside risks to our PO are better-than-expected senior housing or medical office building performance, higher-than-forecast dividend growth and lower interest rates. Downside risks to our PO are further public-pay reimbursement cuts, a more competitive acquisitions environment, weaker-than-expected senior housing fundamentals, increased tenant credit risk, and rising interest rates.

Analyst Certification

We, Joshua Dennerlein and Jeffrey Spector, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agree Realty Corp	ADC	ADC US	Joshua Dennerlein
	Alexandria Real Estate Equities	ARE	ARE US	Joshua Dennerlein
	American Homes 4 Rent	AMH	AMH US	Jeffrey Spector
	Americold Realty Trust	COLD	COLD US	Joshua Dennerlein
	AvalonBay Communities Inc	AVB	AVB US	Joshua Dennerlein
	Boston Properties	BXP	BXP US	Jeffrey Spector
	Brixmor Property Group	BRX	BRX US	Jeffrey Spector
	COPT Defense Properties	CDP	CDP US	Camille Bonnel
	Cousins Properties Inc.	CUZ	CUZ US	Camille Bonnel
	EastGroup Properties	EGP	EGP US	Jeffrey Spector
	Empire State Realty Trust	ESRT	ESRT US	Camille Bonnel
	Equity Residential	EQR	EQR US	Jeffrey Spector
	Essential Properties	EPRT	EPRT US	Joshua Dennerlein
	Federal Realty	FRT	FRT US	Jeffrey Spector
	Invitation Homes Inc	INVH	INVH US	Joshua Dennerlein
	Kimco Realty	KIM	KIM US	Jeffrey Spector
	Kite Realty Group	KRG	KRG US	Jeffrey Spector
	Phillips Edison & Company	PECO	PECO US	Jeffrey Spector
	Prologis, Inc.	PLD	PLD US	Camille Bonnel
	Public Storage, Inc.	PSA	PSA US	Jeffrey Spector
	Regency	REG	REG US	Jeffrey Spector
	Rexford Industrial Realty	REXR	REXR US	Camille Bonnel
	Sabra Health Care	SBRA	SBRA US	Joshua Dennerlein
	Simon Property	SPG	SPG US	Jeffrey Spector
	Ventas, Inc.	VTR	VTR US	Jeffrey Spector
	Welltower	WELL	WELL US	Joshua Dennerlein
NEUTRAL				
	Acadia Realty Trust	AKR	AKR US	Jeffrey Spector
	CubeSmart	CUBE	CUBE US	Jeffrey Spector
	EPR Properties	EPR	EPR US	Joshua Dennerlein
	Equity LifeStyle Properties	ELS	ELS US	Jeffrey Spector
	Essex Property Trust, Inc.	ESS	ESS US	Joshua Dennerlein
	Extra Space Storage, Inc.	EXR	EXR US	Jeffrey Spector
	Getty Realty Corp.	GTY	GTY US	Joshua Dennerlein
	Highwoods Properties	HIW	HIW US	Camille Bonnel
	InvenTrust Properties	IVT	IVT US	Jeffrey Spector
	Kilroy Realty Corporation	KRC	KRC US	Camille Bonnel
	Macerich	MAC	MAC US	Jeffrey Spector
	OMEGA Healthcare	OHI	OHI US	Joshua Dennerlein
	Realty Income	O	O US	Jeffrey Spector
	Retail Opportunity Investments Corp.	ROIC	ROIC US	Jeffrey Spector
	SL Green Realty	SLG	SLG US	Camille Bonnel
	Sun Communities	SUI	SUI US	Joshua Dennerlein
	UDR, Inc.	UDR	UDR US	Joshua Dennerlein
	Veris Residential Inc	VRE	VRE US	Joshua Dennerlein
	Vornado Realty	VNO	VNO US	Camille Bonnel
UNDERPERFORM				
	American Assets Trust	AAT	AAT US	Camille Bonnel
	Armada Hoffler Properties	AHH	AHH US	Camille Bonnel
	Camden Property Trust	CPT	CPT US	Joshua Dennerlein
	Douglas Emmett	DEI	DEI US	Camille Bonnel
	Healthpeak Properties, Inc.	PEAK	PEAK US	Joshua Dennerlein
	Hudson Pacific Properties, Inc.	HPP	HPP US	Camille Bonnel
	Kennedy Wilson	KW	KW US	Joshua Dennerlein
	LXP Industrial Trust	LXP	LXP US	Camille Bonnel
	Medical Properties Trust, Inc.	MPW	MPW US	Joshua Dennerlein
	Mid-America Apartment Communities, Inc.	MAA	MAA US	Joshua Dennerlein
	National Storage Affiliates Trust	NSA	NSA US	Jeffrey Spector
	NetSTREIT	NTST	NTST US	Joshua Dennerlein
	NNN REIT Inc	NNN	NNN US	Joshua Dennerlein
	Paramount Group	PGRE	PGRE US	Camille Bonnel
	Peakstone Realty Trust	PKST	PKST US	Joshua Dennerlein
	STAG Industrial	STAG	STAG US	Camille Bonnel

US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Tanger Inc	SKT	SKT US	Jeffrey Spector
	WP Carey	WPC	WPC US	Joshua Dennerlein

Disclosures

Important Disclosures

Equity Investment Rating Distribution: REITs (Real Estate Investment Trusts) Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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