25 February 2016

Vital announces strong interim result, increases cash distribution to 8.5 cpu and executes on aged care strategy

Vital Healthcare Property Trust ('Vital') today released its interim results for the six months ended 31 December 2015 and will raise its cash distribution to 8.5 cents per unit per annum from the third quarter of the 2016 financial year. Vital has acquired or committed to new growth and expansion initiatives of over A$100m, including its initial investment in four Australian residential aged care assets for A$41m on an initial yield of 8%. A second quarter cash distribution of 2.025 cents per unit will be paid to unitholders on 24 March 2016.

Highlights for the first six months to 31 December 2015 include:

- Total return of 16.5%\(^1\) outperforming the S&P/NZX All Real Estate Gross Index by 8.1%
- Increased cash distribution per unit to 8.5 cents per annum effective from Q3 2016
- Gross rental income of $33.5m, up 8.9%
- Net distributable income of $19.0m, up 16.3%
- Bank facilities renewed on more competitive pricing and terms
- Interim revaluation gain of $45.2m or 5.9%, weighted average cap rate firming 35 basis points to 7.64%
- NTA uplift of 11.0 cents up 8.7% to $1.38
- Sites acquired adjacent to Sportsmed in Adelaide, with commitment to further A$9.5m development in 2016
- Conditional acquisition of Boulcott Hospital for $30.7m and adjacent development land
- Spent $31.1m on value-add brownfield projects, minimum A$50m of additional brownfield development forecast to commence over next 12 months
- Strong WALT of 17.0 years, continued high occupancy at 99.5%, average increase in rents reviewed of 3.3%

David Carr, Chief Executive Officer of the Manager said “We executed on a suite of value-add investment, asset and capital management initiatives in the period, which aligns with our stated scale and diversification strategy and continues to drive performance. The acquisition of our first portfolio of Australian residential aged care assets also delivers on this strategy and we are excited about the opportunities aged care real estate brings to Vital.

The lift in our annualised cash distribution to 8.5 cents per unit effective from quarter three of the 2016 financial year reflects the successful execution of our strategy in recent years. The Board is of the view that our strategy will continue delivering attractive returns to investors and is confident the new distribution is sustainable over the long term.”

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\(^1\) Six months to 31 December 2015
Financial Performance

Gross rental income growth pre-currency movement was up 8.8%. Rental growth was driven principally by the strong contribution of development income over the period. The post-currency impact resulted in gross rental income growth of $2.8m or 8.9%.

The finance expense of $7.2m (+$1.2m, 19.3%) reflects slightly higher overall debt levels, with funding primarily applied to the value-add development programme. The benefit of the renewed banking facility terms announced in December 2015 will crystallise in the second half of the financial year.

Vital assessed the fair value of its portfolio for its interim financial reporting purposes as at 31 December 2015. For the period from 1 July 2015 to 31 December 2015 (supported by external independent desktop review advice from six valuers in New Zealand and Australia), Vital recorded an increase in the fair value of its portfolio of $45.2m (up 5.9%) to $834.8m. This increase is over and above the acquisitions and development expenditure incurred in that period.

Other expenses increased to $6.2m (+83.4%) principally as a result of provision made for a Manager incentive fee of $2.3m for the period. The fee is calculated in accordance with the Trust Deed and won’t crystallise until the end of the financial year. Base management fees increased to $2.9m (+$0.5m) due to the higher asset base compared to the prior year.

Gross distributable income for the period was higher at $21.8m (+$0.8m, or +3.7%) whilst net distributable income for the same period grew to $19.0m (+16.3%) on lower comparable current tax.

Distributions

The Board has confirmed that investors will receive a distribution of 2.025 cents per unit with no imputation credits attached for the second quarter distribution. The record date for the second quarter distribution is 10 March 2016 and payment will be made on 24 March 2016. Vital’s Distribution Reinvestment Plan (DRP) will remain available to investors for this distribution with a 1.0% discount being applied when determining the strike price.

Effective from the third quarter distribution in the 2016 financial year the Board has increased the annualised cash distribution to 8.5 cents per unit.

Treasury and capital management

Vital’s loan-to-value ratio (LVR) as at 31 December was 34.1% and remains well below the Trust Deed covenant of 50%. The weighted average interest rate at period end was 5.16% and includes bank line and margin fees. During the period Vital re-priced and extended its banking facilities on more competitive terms and added an additional A$100m tranche expiring October 2020. Vital’s weighted average bank facility term to expiry has been increased to 4.1 years from 2.6 years, providing added certainty and duration of funding.

NTA increased to $1.38, up 11 cents per unit

Vital’s NTA per unit is $1.38 or 8.7% higher compared to the 30 June 2015 year end NTA of $1.27. The material driver of the net NTA change was the increase in the fair value of the portfolio in the period.

Strong interim valuations

The strong interim revaluation reflects the quality of the portfolio and strengthening investment themes for healthcare real estate. In the last six months there has been sustained transactional evidence to support a continued directional firming in market capitalisation rates for healthcare real estate. The desktop review advice received from independent valuers pointed to a number of drivers, including:

- Firming cap rates across broader market
- Continued strong performance from redeveloped assets due to the unique and attractive lease terms
- Rising interest in healthcare real estate, strong competition for assets
- Increasing transactional evidence in the sub 7% cap rate range
- Low interest rate environment

The Australian portfolio was again a strong driver of the overall result, contributing approximately 90% of the $45.2m total fair value gain. The portfolio weighted average market capitalisation rate firmed by 35 basis points to 7.64%, with the Australian weighted average capitalisation rate firming approximately 40 basis points and 10 basis points in New Zealand. Vital will undertake full independent valuations for all properties as at 30 June 2016.

Portfolio activity

Proactive asset management continued to see Vital’s metrics remain some of the strongest in the sector. Occupancy remains high at 99.5% and Vital’s WALT of 17.0 years is approximately three times the New Zealand listed property
sector average. Vital achieved rent growth of 3.3% on rents subject to review over the period and concluded a number of lease renewals. Less than 1% of total annual income is due to expire prior to 30 June 2016.

Acquisition and development activity

During the period Vital announced a number of strategic acquisitions including:

- Hopkins Street property for A$7.8m, immediately adjacent to Lingard Private Hospital in Newcastle
- Two parcels of land adjacent to Sportsmed Private Hospital in Adelaide for A$5.2m and construction of a A$9.5m stand-alone medical consulting building.

Vital also announced the conditional acquisition of Boulcott Hospital in Lower Hutt for $30.7m reflecting an initial yield of 6.85%. Also acquired was an adjacent property providing future expansion capability. The Boulcott acquisition reaffirms Vital’s commitment to the New Zealand market and complements the growth experienced in Australia. Settlement is anticipated to occur mid-2016 following receipt of satisfactory regulatory approvals.

Mr Carr said “The mainstay of Vital’s performance over recent years has been the value-add brownfield development programme. During the period we spent approximately $31.1m and effectively completed and started receiving rent on three developments: Hurstville, Belmont and Maitland Private Hospitals. This accretive development work continues with two projects, one at South Eastern Private Hospital in Melbourne and the other at the Marian Centre in Perth, with a forecast remaining capital spend of approximately A$12.0m.

Subject to due diligence and final Board approvals we anticipate commencing a minimum of A$50.0m of brownfield projects in the next 12 months.”

Vital to acquire four Australian residential aged care properties

David Carr said “We have previously articulated a strategic desire to invest in residential aged care real estate and are fortunate to have now established a partnership with a leading private provider in the Australian market. This initial portfolio of four properties, two each in New South Wales and Western Australia comprises 275 operational places. The acquisition will further diversify Vital’s portfolio composition, geographic markets and operator covenant, and will enhance long-term sustainable earnings for our investors.”

Highlights of the conditional acquisition include:

- Four properties to be acquired for A$41.0m, at an initial yield of 8%
- 20 year initial lease term, with two ten year rights of renewal
- Leases are triple net with annual CPI reviews and periodic reviews to market
- The operator is an experienced, highly regarded operator with a strong focus and reputation for resident care
- Underlying drivers of residential aged care demand closely align with core drivers of Vital’s historic performance, including a growing and ageing population
- Aged care is predominantly government funded. Recent and ongoing reforms encourage new investment and underpin the long-term sustainability of the sector, and
- The residential aged care real estate market provides attractive long-term growth potential via consolidation, acquisition and development opportunities to meet increasing demand

Outlook

Mr Carr said “We started 2016 in a strong financial and portfolio position after a very productive 2015. A growing and ageing population continues to support long-term demand for healthcare services and our outlook remains positive, notwithstanding reviews across parts of the healthcare system in Australia.

We continue to consider healthcare real estate opportunities that support our scale and diversification strategy, and will prudently assess each acquisition and development opportunity on its merits. I look forward to updating investors through 2016.”

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ENQUIRIES

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