Vital
Healthcare
Property Trust

VITAL UPDATE
MARCH 2016

INSIDE:

FOCUSING ON TOMORROW
CEO David Carr on keeping the momentum going and increasing cash distribution to investors from Q3 2016

AGED CARE
Adding diversification and opportunity in our portfolio

DEVELOPMENT PIPELINE
Continues to strengthen as demand grows

ACQUISITIONS & DEVELOPMENTS
Strategic acquisitions plus a New Zealand hospital investment

A MESSAGE FROM DAVID

FOCUSING ON TOMORROW

DEAR INVESTOR

It's a pleasure to bring you our first Vital Update for 2016.

Strong interim results

We announced our interim results on 25 February and these are covered in detail in the accompanying Interim Report. Investors will receive a second-quarter distribution payment of 2.025 cents per unit with no imputation credits attached. This payment coincides with the release of this Update.

Below are some of our highlights which illustrate our strong start to the financial year and some exciting opportunities for the future:

- A 16.5% total investor return in the first six months
- Increased cash distribution to 8.5cpu per annum effective from Q3 2016
- Net distributable income growth of 16.3%
- An interim revaluation gain of $45.2m or 5.9%
- NTA uplift of 11c to $1.38
- Acquisition of four Australian residential aged care assets for A$41.0m

It's pleasing to deliver a lift in distributions, which reflects our successful delivery on strategy in recent years.

Focusing on tomorrow

Our entry into the Australian residential aged care sector offers attractive long-term growth opportunities for Vital. We have previously spoken of our interest in aged care. To have established a relationship with Hall & Prior Health and Aged Care Group, a leading private provider in the Australian market is a great outcome. You can read more about this transaction, its benefits to investors and the Australian aged care sector in this Update.

Strategic acquisitions adjacent to our existing properties protects the long-term value of those assets. It also allows us to grow with our partners, to keep up with rising demand for healthcare services and to deliver larger, modernised and more efficient hospitals, which is a core component of long-term value creation.

We continued to deliver on these themes with:

- Acquisitions of strategic sites adjacent to Lingard Private, Toronto Private and Sportsmed
- Announcing the development of a A$9.5m stand-alone medical consulting building at Sportsmed, with works forecast to commence mid-2016

The conditional acquisition of Boulcott Hospital in Lower Hutt for $30.7m will see Vital acquire a high quality New Zealand asset and add a new tenant to the portfolio – ASX-listed Pulse Health Group.

Over the period we maintained strong portfolio metrics including a 17-year WALT and close to 100% portfolio occupancy.

2016 – On strategy

After an extremely busy 2015, we started the 2016 financial year in a strong position with supportive long-term healthcare trends continuing to underpin a positive outlook. The increase in cash distribution to 8.5cpu per annum effective from Q3 2016 reflects the team's execution capability over recent years and we continue to focus on opportunities that align with our scale and diversification strategy.

I look forward to updating you further throughout 2016.

Kind regards

David Carr
Chief Executive Officer

ACQUISITIONS

"Strategic acquisitions across our portfolio help protect the long-term value of those assets, which very much aligns with our theme of focusing on tomorrow."

David Carr
Chief Executive Officer

New Zealand acquisition

Right before Christmas, we announced that we have conditionally acquired Boulcott Hospital in Lower Hutt for $30.7m.

Boulcott is a 38-bed private surgical hospital made up of three operating theatres, 29 inpatient beds, a nine-bed day surgery suite and an endoscopy unit. The hospital is located in the city of Lower Hutt, approximately 20 kilometres north of the Wellington CBD, with a catchment of approximately 145,000 people.

Settlement is expected following receipt of regulatory approvals, which is anticipated mid-2016.

Following settlement the hospital will be leased to ASX-listed Pulse Health Group, a quality integrated health services provider with 15 private hospitals, day surgeries and rehabilitation facilities across Queensland, New South Wales, Victoria and Western Australia. Pulse is a new tenant for Vital, which brings tenant diversification benefits for us. This is their first venture into New Zealand and we are excited about the opportunity to work with them.

Separately, Vital will also acquire an adjacent residential property for $1.0m for future development.

Strategic acquisitions

Our ongoing brownfield development activity gradually results in our hospital sites reaching their development capacity. Our strategic acquisition of land surrounding established hospitals enables further developments in the future, to meet the increasing demand for healthcare services.

Sportsmed hospital and clinics in South Australia, where we have recently acquired adjacent strategic land.

Last year we talked about our purchase of a A$3.5m site adjacent to the Epworth Eastern campus as part of a longer-term development plan for the site. Since then we have acquired a further five strategic sites, one adjacent to Toronto Private Hospital in NSW, two adjacent to Lingard Private Hospital in NSW and two adjacent to Sportsmed Private Hospital in SA.

FIRST INVESTMENT INTO RESIDENTIAL AGED CARE

About the aged care sector

Demand for 80,000+ new beds over the next ten years

One million elderly cared for by over 1,000 providers

A$34bn in total industry assets

Aged care accounts for 3.6% of government expenditure

In February we announced our first residential aged care acquisition. The four assets were acquired for A$41m.

The properties will be leased to Hall & Prior, one of Australia's leading private residential aged care operators, who have a strong focus on and reputation for resident care.

Of the four properties acquired, two are in New South Wales and two are in Western Australia, and together they total 275 beds (also known as operational places).

Hall & Prior was established in 1992 and is a private Australian Commonwealth Government approved residential aged care provider with more than 1,450 aged care beds across their portfolio.

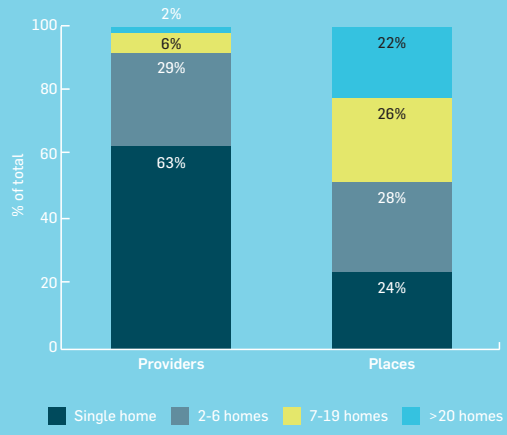
Hall & Prior currently manages 22 facilities, with primary concentrations in metropolitan Perth and metropolitan Sydney. Hall & Prior's Western Australia division has 900 residential aged care beds and 1,200 staff. The New South Wales division has 550 residential beds and over 400 staff.

One key feature of the Australian aged care sector is that there are a large number of small providers. Around 63% of providers only operate one facility and account for around 24% of all beds. This compares to 2% of operators who account for 22% of all beds. The large number of small providers coupled with a favourable regulatory framework and a more market based or consumer driven model, means sector consolidation will arguably accelerate from here. Based on these underlying themes, we expect our new relationship with Hall & Prior to generate a pipeline of acquisition and brownfield development opportunities. Over time, this will support the long-term sustainability of our earnings and deliver important portfolio diversification benefits to Vital and investors – much like our hospital capital expansion programme has over the last six years.

"Australia's aged care sector certainly offers significant diversification opportunities for Vital over the long term."

David Carr
Chief Executive Officer

Providers and operational bed places



Source: Funding and Financing of the Aged Care Sector, July 2015

DEVELOPMENT PIPELINE – TOMORROW'S LOOKING BRIGHT

Recently completed developments

Since our last update we have been very busy completing several developments including Hurstville Private Hospital (pictured), Belmont Private Hospital and Maitland Private Hospital. The hospitals have continued to be extremely busy following the completion of the additional capacity.

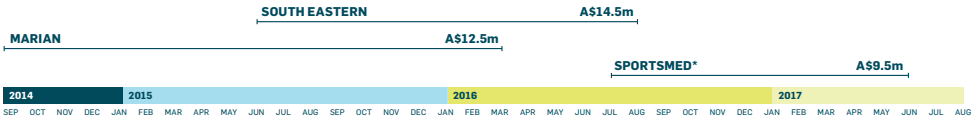
Currently in development

Currently in development are the Marian Centre in Western Australia and South Eastern Private Hospital in Victoria. From the photograph of South Eastern you can see the scale of the A$14.5m development. It will deliver an additional 30 rehabilitation beds, 30 mental health beds and extra car parking.

On the horizon

Further to our current developments we have recently announced a A$9.5m development at Sportsmed Hospital in South Australia. This development is due to commence in July and will see the construction of a stand-alone medical consulting building at the site. This will complement the existing hospital and clinic where the operators, Sportsmed specialise in the treatment of orthopaedic sporting injuries, arthritic conditions and joint replacements.

In addition to this, we anticipate approximately A$50.0m of further brownfield projects to commence over the next 12 months.



* Start date for this development is subject to planning permission

VALUATIONS – VALIDATING OUR STRATEGY

During the financial period, Vital assessed the fair value of its portfolio as at 31 December 2015. Supported by external independent advice, 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.

The excellent interim revaluation outcome reflects the quality of the portfolio and strengthening investment themes for healthcare real estate. In the last six months there has certainly been more transactional evidence to support the continued 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 the broader market
- Continued strong performance from redeveloped assets due to the unique and attractive lease terms
- Rising interest in healthcare real estate, with strong competition for assets
- Increasing transactional evidence in the sub-7% cap rate range
- A low interest rate environment

The portfolio weighted average market capitalisation rate firmed by 35 basis points to 7.64%, with the weighted average capitalisation rate firming approximately 40 basis points in Australia and 10 basis points in New Zealand. Vital will undertake full independent valuations for all properties as at 30 June 2016.

Development site at
South Eastern Private Hospital

The recently redeveloped
Hurstville Private Hospital

90%

of revaluation gain driven by Australian portfolio

7.64%

Vital's new portfolio weighted average market capitalisation rate

2015 ANNUAL MEETING

The Trust's Annual Meeting was held on 10 November 2015 at Auckland's Stamford Plaza Hotel. Thank you to all who attended.

There was just one resolution presented at the meeting. Unitholders voted by 99.99% in favour of reappointing Graeme Horsley as Independent Director.

We've added the Chairman and CEO presentations to the website, so if you weren't able to attend the meeting, you can bring yourself up to speed. Go to vitalhealthcareproperty.co.nz, select 'News & publications' and then '2015 Annual Meeting Presentation' under the Reports, presentations and publications section.

Graeme Horsley
Independent Chairman

PORTFOLIO METRICS

As at 31 December 2015

Number of **PROPERTIES**

28

OCCUPANCY

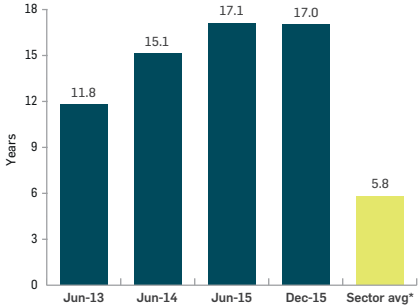
99.5%

WALT

17.0 YEARS

Weighted Average Lease Term to expiry (WALT)

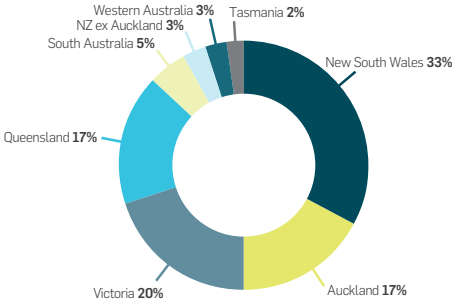
Approximately three times the New Zealand listed property sector average



* Source: Forsyth Barr Real Estate Reflections February 2016, NZ Listed Property excl. VHP.

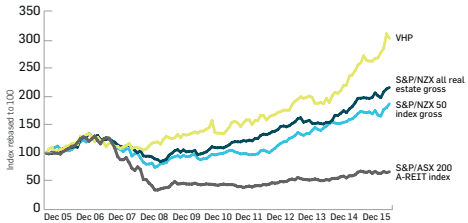
Portfolio geographic composition

Well diversified by geography



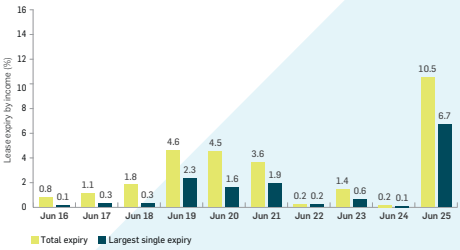
Ten-year total return performance

Well-executed strategy continues delivering healthy returns



Ten-year lease expiry profile

Average lease expiry per annum over the next ten years is only 2.9%



Source: Craigs Investment Partners (CIP) as at 31 December 2015.

Keep up to date with all Vital events and information at
www.vitalhealthcareproperty.co.nz

► Important dates

The Trust's financial year is 1 July to 30 June. Our calendar below shows events, publication dates and distribution dates for the next six months. This is updated regularly on our website as some dates are subject to change.

Quarter two distribution payment	**24 March 2016**
Interim report posted	**24 March 2016**
Quarter three distribution payment	**June 2016**
Annual result announcement	**August 2016**

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Please assist our registrar by quoting your CSN or shareholder number.

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