Market Release

26 February 2015

Vital announces interim result

Vital Healthcare Property Trust ('Vital') today announced its interim results for the six months ended 31 December 2014 and reaffirms its forecast cash distribution guidance of 8.0 cents per unit for the 12 months to 30 June 2015. A second quarter cash distribution of 2.0 cents per unit will be paid to unitholders on 26 March 2015.

Highlights

- Commenced A$40.8m of brownfield developments at five hospitals
- Divested a non-core asset at Whangaparaoa, Auckland for $4.2m
- Acquisition of key strategic sites adjacent existing strategic assets
- Strengthened portfolio WALT[1] to 15.2 years (FY14: 15.1 years)
- Improved occupancy of 99.5% (FY14: 99.4%)
- Average increase in rents reviewed of 2.1%
- Completed 11 of 21 lease renewals or expiries and reduced income exposure from 3.4% to 0.8%

Graeme Horsley, Independent Chairman of Vital Healthcare Management Limited (the 'Manager') said "Vital has delivered another strong period of performance. The result reflects the continuing drive by the management team to execute on our well founded strategy, supported by the fundamental drivers of the healthcare sector. The familiar themes of an ageing population and rising demand for healthcare services continue to underpin our long term positive outlook. We will continue to leverage these trends and the market leading capability and credibility profile of the business to further enhance the long term quality and sustainability of Vital's earnings."

Chief Executive of the Manager, David Carr said "We have had a solid start to 2015, providing a great platform for the remainder of the year. In the first half we approved five value add development projects equating to approximately A$41m, and moved closer to the mid-year completion of the A$28m development at Hurstville Private in Sydney. The brownfield development programme continues to be driven by robust business cases from Vital's established hospital operators, who face increasing demand with many facilities operating at capacity.

This continued organic growth coupled with our strong tenant relationships and proactive portfolio management will see that Vital remains well positioned to deliver on the low risk, medium return investment characteristics investors have come to expect."

Financial performance

For the six months to 31 December 2014 Vital achieved gross rental of $30.8m, a growth of 3.0% or $0.9m on the prior year period, driven by the combination of a part period contribution from the Marian Centre acquisition in Perth, brownfield development income and rental growth. Vital's operating profit before interest and tax increased by $1.0m, or 4.0%, to $26.7m.

Vital's finance expense reduced by $1.8m, or 22.9%, to $6.1m. This reflected the combination of lower net debt following the equity raising last financial year, a higher New Zealand dollar over the period, lower floating interest rates and the renewed banking facility on more attractive terms. Unrealised marked to market movement on interest rate swaps resulted in a loss of $5.5m at period end compared to a $3.1m gain in the comparable period.

Vital's net tangible asset value (NTA) per unit was $1.03 (FY14: $1.04).

Net distributable income was $16.3m for the six months, compared to $20.6m in the prior period. This reduction is due to a current tax expense of $4.7m versus a tax credit of $1.6m in the prior period. Part of the tax increase related to tax payable on income received in advance in relation to the Mercy Ascot lease transaction, with the comparative prior year period benefitting from notable tax adjustments, including Inland Revenue binding rulings and unrealised Forex loss.

1 Weighted Average Lease Term to expiry

Treasury and capital management

Vital's loan-to-value ratio (or LVR) at 31 December 2014 was 34.4% (FY14: 31.4%). The increase primarily reflected the acquisition of the Marian Centre and funds utilised in developments offset in part from the sale of the Hibiscus Coast Community Health Centre in Whangaparaoa and a stronger New Zealand dollar. The LVR remains well below Bank and Trust Deed covenants, which are both aligned at 50%. This headroom provides additional flexibility to undertake value add developments and acquisition opportunities as they arise.

The weighted average interest rate at period end including line and margin fees was 5.52% (FY14: 5.66%). The lower rate reflects Vital being slightly less hedged with more exposure to declining floating interest rates, than at its year end position.

Vital has continued with its established foreign exchange policy framework to manage the influence of currency fluctuations on the business.

In accordance with the policy, additional hedging is put in place through foreign exchange contracts ('FEC's') and options to lift the effective hedging position to manage Vital's financial position. As at 31 December 2014 there was an unrealised gain of $5.5m reflected within Other Comprehensive Income, with a portion of this crystallising in early January 2015 with the receipt of $7.6m.

Portfolio activity

"Ongoing delivery on core portfolio asset management activities has enhanced Vital's market leading WALT to 15.2 years and seen a continuation of near full occupancy of 99.5%. These strong portfolio metrics provide investors with a defensive property income profile over an extended term.

In the 2015 financial year approximately 90% of total rent is subject to review, with approximately 30% in the first six months, with an average increase achieved to date of 2.1%. There were 21 leases due to expire over the year equating to 3.4% of annual income. We have now renewed 2.6%, leaving only 0.8% to address. The largest single lease expiry for the year has also been resolved with that tenant committing to a new 5 year lease term at the Gold Coast Surgical Centre in Southport, Queensland. For the two and a half years to 30 June 2017 only 2.5% of total income is due to expire and we continue to proactively address those expiries.

The November 2017 lease expiry at Allamanda Private Hospital remains a clear priority and focus for management and we continue to actively consider alternative users and uses for the property" said Mr Carr.

For the first six months Vital announced five new value add capital projects further expanding on Vital's 'creating capacity to meet demand' theme. The committed capex equates to A$40.8m and on completion is forecast to yield approximately 9.0% per annum.

The hospitals include Belmont Private (A$9.5m for a new 30-bed extension, additional consulting suites and carparks), Hurstville Private (A$6.0m towards new coronary care and intensive care units), Maitland Private (A$13.0m for a new psychiatric ward and extended rehabilitation services) and Lingard Private (A$1.5m towards a new theatre and refurbishment). As part of the acquisition of the Marian Centre in Perth last year A$10.8m was also committed to the development of additional beds, consulting rooms and carparks at the facility. The forecast completion dates for the above projects range between February and December 2015.

"Vital also secured five-year lease extensions as part of the Belmont Private and Maitland developments which reflects a strong tenant relationship and helps deliver enhanced portfolio metrics. We expect these organic growth opportunities to continue as part of our forward outlook due to rising demand for healthcare services" said Mr Carr.

In December Vital also acquired property adjacent to the Epworth Eastern Melbourne campus for A$3.5m. Mr Carr said "Strategically, the acquisition was logical as it allows Vital to support the growth aspirations of one of our largest tenants as the demand for services at Epworth Eastern escalates. Strategic incremental acquisitions will likely continue across the portfolio as we look to protect the significant long term investment both our hospital operator partners and Vital have in these strategic assets."

During the period Vital also sold Hibiscus Coast Community Health Centre in Whangaparaoa for $4.2m. Mr Carr said "Our on-going capital management strategy is to appropriately recycle capital out of low value, lower growth assets into more strategic long term opportunities as they arise."

Outlook

Mr Carr said "Vital's portfolio metrics and financial position remain strong and we continue to leverage the favourable outlook in demand across the health sector, driven by an ageing population, strong private health insurance levels, particularly in Australia and rising consumer demand for quality and timely provision of healthcare services.

Portfolio diversification and enhancement remains a focus with opportunities being considered that align with Vital's core strategy and portfolio characteristics including bed-based care, long term leases, structured rent review profile and quality tenant covenants."

Guidance for the 2015 financial year

The Board has reaffirmed its previous cash distribution guidance for the year ending 30 June 2015 of 8.0 cents per unit.

For the second quarter of the 2015 financial year, the Board are pleased to confirm that investors will receive a cash distribution of 2.000 cents per unit. This will be made up of a fully imputed distribution of 0.8207 cents per unit with imputation credits of 0.2298 attached and an excluded distribution of 1.4091 cents per unit.

The record date for the distribution is Thursday 12 March 2015 and payment will be made on Thursday 26 March 2015. 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 that will be applied in the calculation of the issue price of units allotted to those participating in the DRP.

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ENQUIRIES

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About Vital Healthcare Property Trust

With a portfolio value of over NZ$630m, Vital Healthcare Property Trust (NZSX: VHP) is Australasia's largest listed investor in healthcare real estate. Tenants include hospital operators and healthcare practitioners who deliver a wide range of medical and healthcare related services. Vital currently has a portfolio of 25 properties with 75% by value located in Australia and the balance in New Zealand. Vital aims to deliver a low-risk, medium-return investment profile for unitholders. The Manager of Vital Healthcare Property Trust is Vital Healthcare Management Limited.

vitalhealthcareproperty.co.nz