Vital HEALTHCARE PROPERTY TRUST

MARKET RELEASE

10 August 2020

FY20 results release

Vital Healthcare Property Trust (**Vital**) released its results for the year ended 30 June 2020 (**FY20**) today.

2020 has been a challenging year globally due to COVID-19. Notwithstanding these challenges, Vital's defensive portfolio helped Vital record a 5.1% total return in FY20, outperforming the S&P/NZX REIT Index by 13.4%.

Vital's defensive characteristics include its market-leading 18.1 year weighted average lease expiry term (**WALE**), high levels of government support for healthcare operators and healthcare spending being primarily non-discretionary or high-priority. The underlying strength of our tenants' income helped us achieve over 95% rent collection for FY20 in turn enabling us to meet our distribution guidance for FY20.

FY20 Highlights

- 5.6% increase in adjusted funds from operations (**AFFO**) per unit (9.90 to 10.45 cpu), reflecting 3.4% net property income growth[1] and a 7.2 % net reduction in expenses.
- $249.9m or 13.6% increase in value of investment properties including $88.5m capital expenditure[2], $75.4m of acquisitions and $45.7m of revaluation gains.
- 2.9% increase in net tangible assets per unit from $2.31 to $2.38.
- Distributions of 8.75 cpu paid or payable on a conservative 83.7% AFFO payout ratio.

Vital's Fund Manager, Aaron Hockly, said:

"Vital invests in healthcare ecosystems in New Zealand and Australia. Our investments help improve patient outcomes, operator efficiency and asset resilience whilst providing a defensive income stream for our unitholders.

Given COVID-19, we are very pleased to be able to provide FY21 distribution guidance[3] of at least 8.75 cents per unit consistent with FY19. This guidance reflects Vital's high quality portfolio, defensive earnings and our new 5-year portfolio strategy.

Over the medium-term, Vital is targeting 2-3% growth in AFFO per unit per annum and a corresponding increase in distributions."

Portfolio

Vital owns a high quality, high acuity portfolio with the longest WALE of any ASX or NZX-listed property group, limited upcoming expiries and an average of only 1.3% of the portfolio's rent expiring per annum

[1] Excluding FX impacts

[2] Includes developments and other capex, capitalised interest and capitalised incentives.

[3] Guidance is provided on the basis of a range of assumptions including no significant change in COVID-19 in New Zealand or Australia as well as those matters referred to in the Disclaimer at the end of this announcement.

over the next 10 years. Vital's WALE remained consistent with 30 June 2019, despite 12 months passing, reflecting leasing, development and other portfolio improvements.

Our tenants are some of the largest healthcare providers in New Zealand and Australia including government, not-for-profit and for-profit entities.

COVID-19

Although the suspension of elective surgery due to COVID-19 resulted in temporary cashflow issues for operators, private hospitals quickly returned to operating at full or near full capacity when restrictions were eased. We expect this to be repeated when the recently re-imposed restrictions in Victoria are ultimately removed. In addition, Australian hospital operators were financially supported by agreements with State Governments.

Neither of Vital's aged care tenants have been materially impacted by COVID-19 (to date) and no requests for rent relief have been received from this subsector.

As a result of the above, FY20 rent abatements were less than $300,000 out of a total rent roll of over $100m. 95% of this rent has already been collected and arrangements are expected to be agreed shortly for the remaining 5%.

This high level of rent collection, particularly compared with other property sectors, highlights the defensive nature of our tenants' earnings and, as a result, Vital's earnings. Healthcare spending is typically non-discretionary or high priority discretionary and is underpinned by high levels of government funding in both New Zealand and Australia.

Acquisitions & Divestments

In addition to $11.2m of strategic acquisitions, Vital acquired three aged care assets for $60.1m in FY20. These acquisitions were acquired on a 6.5% cap rate and, as a result, immediately accretive to earnings delivering ~$1m in additional rent over FY20 despite only settling in March. All three assets are leased to Bolton Clarke, one of Australasia's largest and most experienced not-for-profit aged care and retirement living providers with over 200 years of experience, 2,500+ aged care beds across 25 facilities and operations in Australia, New Zealand and elsewhere.

There were no divestments in FY20. However, Vital will look to recycle capital particularly to help fund its development pipeline.

Property values

The portfolio value increased by $249.9m over FY20 including $88.5m of capital expenditure[4], $75.4m of acquisitions and $45.7m valuation gains.

All of Vital's investment properties were valued externally as at 30 June 2020. The gains recorded over FY20, as compared with many of our peers, reflect Vital's high level of rent collection as well as the high quality of Vital's tenants and properties. The $45.7m of valuation gains included $29.0m from net cap rate compression (7bps reduction) with the balance coming from rent increases and development margins.

Revaluation gains helped increase Vital's NTA per unit by 2.9% to $2.38.

[4] Includes developments, capex, capitalised interest and capitalised incentives.

Portfolio Strategy

Vital's board has approved a new 5-year portfolio strategy targeted at:

1. Continuing Vital's earnings growth to support our targeted 2-3% AFFO growth per annum.
2. Providing a framework for Vital's acquisitions, developments and portfolio composition including target subsector allocations (refer below) and defining Vital's investment universe.
3. Repositioning Vital's portfolio to improve asset and income diversity as well as increasing exposure to favoured investments (including targeted asset recycling).

New target asset allocations are:

- Hospitals – 50-70% (30 June 2020 allocation: 82% of portfolio value).
- Out-patient/Medical office buildings – 10-20% (30 June 2020: 12%).
- Aged Care - 10-20% (30 June 2020: 6%).
- Life Sciences / Research - 5-15% (30 June 2020: 0%). The initial focus for this subsector will be New Zealand. Hospitals and aged care are the priority for Vital's growth in Australia at least in the near-term.

Developments

Developments remain an important driver of Vital's assets, earnings and portfolio construction as they typically:

1. Provide an accretive return on cost for Vital.
2. Enhance Vital's NTA and WALE.
3. Respond to our tenants' business and operating requirements (reducing their costs and / or increasing their revenues).
4. Ensure Vital's assets are modern, fit-for-purpose and accord with community / patient expectations.
5. Strengthen our relationships with key operators.

In addition to value add and maintenance capex, Vital undertook significant development projects in New Zealand and Australia during FY20 including completion of two developments (The Hills Clinic in Sydney and Lingard Day Centre in Newcastle) and commencement of two new significant developments (Epworth Eastern in Melbourne and Wakefield Hospital in Wellington). Refer to the Investor Presentation and Annual Report released today for full details of developments completed and underway.

AFFO

Cash from operations available to unitholders, measured by AFFO, increased 7.5% to $47.2m equating to10.45 cents per unit, 5.6% above FY19. In addition to underlying income growth, this AFFO increase was supported by a 7.2% reduction in overall expenses including a 13.2% reduction in finance expenses and a 6.1% reduction in management fees.

Finance expenses declined due to lower base rates and increased development activity partly offset by higher total borrowings.

Management fees (excluding activity-based fees) declined by $7.2m due to lower incentive fees and the introduction of a tiered base management fee regime as approved by unitholders in October 2019. As a result of these changes, base management fees for FY20 were $2.2m lower than they otherwise would have been.

10.45 cents per unit in AFFO enabled 8.75 cents to be paid in distributions per unit on a conservative payout ratio of 83.7%.

Capital Management

Debt to total assets ratio was 38.7% at 30 June 2020 (30 June 2019: 35.3%). Given the nature of Vital's portfolio, the Board and Management are comfortable with both the current and projected levels of debt. Vital currently has approximately $225m of headroom under its current debt facilities and has asset recycling planned to cover some of its development expenditure.

Weighted average cost of debt as at 30 June 2020 was 3.59% (30 June 2019: 4.40%) with this decrease being primarily a result of a decline in floating rates.

The average debt maturity of 1.81 years remains below where the Board and Management would like this to be. Measures to extend Vital's debt term are underway.

Foreign exempt listing proposal on the ASX

At a Special Meeting in April 2020, 66% of eligible unitholders voted in favour of a proposal to restructure Vital to facilitate a foreign exempt listing on the ASX. In addition, NorthWest, holder of 25% of Vital's units, was unable to vote on the proposal but was supportive of the transaction.

This 66% of eligible unitholders voting in favour was below the required 75% threshold and so the proposal did not proceed. Approximately $8m was spent on the proposal (including amounts capitalised from prior periods) and this was expensed during FY20.

Outlook

Healthcare property remains a defensive asset class underpinned by growing demand, high levels of government support in Australia and New Zealand and growing institutional interest.

As Australasia's leading listed owner of healthcare real estate, Vital is well positioned to take advantage of opportunities in this sector to continue to provide attractive risk-adjusted returns for unitholders.

Conference call and webcast

A conference call will be held at 10am today. Participants can register for the conference call by navigating to: https://s1.c-conf.com/diamondpass/10008321-invite.html

Please note that registered participants will receive a personal pin upon registration allowing direct entry to the call.

Presentation slides and audio can be viewed by copying the following URL into your internet browser: https://edge.media-server.com/mmc/p/wmjspbj9

You will be required to input your name, email address and company name to register for the webcast.

A copy of the webcast will be available on Vital's website later in the day at: www.vhpt.co.nz

– ENDS –

ENQUIRIES

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About Vital (NZX code VHP):

Vital Healthcare Property Trust is an NZX-listed fund that invests in high-quality healthcare properties in New Zealand and Australia including private hospitals (~81% of rent), Medical Office Buildings (~11% of rent) and aged care (~8% of rent).

Vital is the only specialist listed landlord of healthcare property in Australasia and currently has a portfolio valued at over $2 billion.

Vital is managed by NorthWest Healthcare Properties Management Limited, a subsidiary of Toronto Stock Exchange listed NorthWest Healthcare Properties REIT, a global owner and manager of healthcare property.

For more information, visit our website: www.vhpt.co.nz

Disclaimer:

This announcement has been prepared by NorthWest Healthcare Properties Management Limited (the "Manager") as manager of the Vital Healthcare Property Trust (the "Trust"). The details in this announcement provide general information only. It is not intended as investment , legal, tax or financial advice or recommendation to any person and must not be relied on as such. You should obtain independent professional advice prior to making any decision relating to your investment or financial needs.

All references to $ are to New Zealand dollars unless otherwise indicated.

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