

12 August 2021

## FY21 Annual Results Release

NorthWest Healthcare Properties Management Limited (**NorthWest**), the Manager of Vital Healthcare Property Trust (**Vital**), released Vital's results for the year ended 30 June 2021 (**FY21**) today.

Vital has continued to deliver on its strategies to develop and grow its unique healthcare portfolio in Australia and New Zealand, while providing significant growth in returns for its unitholders.

FY21 highlights included:

- 10.4% increase in AFFO per unit from 10.45 cents per unit (cpu) to 11.54 cpu.
- 21.4% increase in net tangible assets (**NTA**) per unit from \$2.38 to \$2.89.
- Distributions of 8.875 cpu paid or payable; a prudent 76.9% AFFO pay-out ratio.
- 27.7% total return<sup>1</sup> exceeding the S&P/NZX REIT Index by 7.4%.
- Appointment of an Independent Chair to lead a majority independent board and replacement of long-standing director Bernard Crotty with Craig Mitchell.

### Vital's Fund Manager, Aaron Hockly, said:

"FY21 was a year of significant achievements for Vital with growth in both earnings and distributions.

We undertook \$387m of property transactions<sup>2</sup> in line with our previously announced 5-year portfolio strategy, including securing a number of attractive future development sites, and delivered over 60,000<sup>3</sup> square metres of leasing improving the portfolio across a range of metrics including extending Vital's WALE<sup>4</sup> to 18.7 years.

Developments are a core part of Vital's strategy. They provide both future earnings and value growth for unitholders and support / complement new and existing tenants to take advantage of changes in healthcare delivery, including an increased focus on ambulatory care."

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<sup>1</sup> Calculated as distributions (reinvested) plus unit price appreciation. Source: Forsyth Barr.

<sup>2</sup> Comprising \$286m of acquisitions and \$101m of divestments

<sup>3</sup> Includes new leasing, renewals, extensions and development pre-commitments

<sup>4</sup> Weighted average lease expiry term.

## Portfolio Overview

Vital's portfolio remains high quality, high acuity with a market-leading WALE and limited upcoming expiries (on average 1.6% of the portfolio's rent expires per annum over the next 10 years).

Vital's WALE was 18.7 years at 30 June 2021 over 7 months longer than at 30 June 2020 despite 12 months passing reflecting acquisitions, disposals, leasing, development and other portfolio improvements. Vital's WALE remains the longest of any ASX or NZX-listed property group.

The average building age has been maintained at a young 11 years consistent with the Manager's strategy to maintain or lower this key metric as a means of maintaining relatively low capital expenditure and ensure Vital's assets continue to meet tenant / patient demand.

Significant work on ESG / sustainability was undertaken by the Manager over FY21. This included Vital reporting its greenhouse gas emissions to CDP for the first time and preparation for a second submission which occurred post-balance date in July 2021. Also post-balance date, Vital and NorthWest group participated in GRESB for the first time with expectations that there will be on an on-going, annual submission for both entities. Vital's annual report, released contemporaneously with this release, includes details of sustainability achievements and future targets.

## Net Property Income

Net property income increased by 8.0% from FY20 (excluding foreign exchange impacts), reflecting contributions from the structured rent reviews within the portfolio, developments and acquisitions. After adjusting for foreign exchange, net property income increased by 9.4%.

## Acquisitions

Vital acquired the following hospitals in FY21:

1. Grace Hospital, a 51-bed, 11-theatre facility purpose-built in 2007 and expanded in 2020 located in Tauranga, New Zealand for \$95.0m (plus transaction costs). The property is fully leased to a joint venture between New Zealand's largest hospital operator, Southern Cross Hospitals, and New Zealand's third largest private hospital operator, Evolution Healthcare for 30 years.
2. Epworth Camberwell, a 4-level, 147-bed private mental health and specialist rehabilitation facility for A\$82.7m (plus transaction costs but inclusive of a tenant incentive to be paid following the third anniversary of the commencement of the lease). The property is fully leased to Epworth Foundation, the largest not-for-profit private hospital operator in Victoria, for 20 years.

In addition, Vital acquired five properties for future development for \$68.8m (plus transaction costs) in Adelaide, Auckland, Brisbane, the Gold Coast and Melbourne. These properties will enable Vital to deliver on its strategy of having 10-15% of the portfolio under development. In turn, this will support earnings and valuation growth for unitholders and ensure Vital can continue to respond to tenant / market demand for healthcare properties.

Post balance date, Vital has unconditionally agreed to acquire the Lower Hutt Health Hub, a purpose-built seismically resilient medical office building and out-patient facility for \$46.5m (plus transaction costs). The existing building was completed in late 2019

consistent with the Manager's focus on developing and acquiring new and recently constructed buildings. The acquisition will increase Vitals' future expansion land holding to ~3,200 square metres to meet both public and private healthcare demand. The property adjoins Vital's existing asset, Boulcott Hospital, as well as the main public hospital for the region, Hutt Hospital. Post settlement Vital's yield for the campus will reflect ~4.5% across the Lower Hutt Health Hub and Boulcott Hospital. Settlement is expected to occur between September 2021 and March 2022, subject to finalisation of title amalgamation for the development land.

## Divestments

Three mature regional Australian hospitals were sold for \$100.4m during the year, with the proceeds reinvested to acquire Grace Hospital noted above. The properties sold were:

1. Mayo Private Hospital, Taree, New South Wales;
2. Dubbo Private Hospital, Dubbo, New South Wales; and
3. North West Private Hospital, Burnie, Tasmania.

## Developments

In addition to asset enhancing and maintenance capital expenditure, Vital had ~\$300m development projects underway in New Zealand and Australia with ~\$130m remaining to spend.

The following developments completed during FY21:

1. Upgrade and expansion of Royston Hospital in Hastings at a total cost of \$9.9m, progressively contributing additional rental income throughout the project and a total annual income of ~\$590k in year one. The adjoining day surgery unit is expected to complete in October 2021.
2. A new oncology centre at South Eastern Private Hospital in Melbourne at a total cost of A\$9.2m, contributing ~A\$540k of additional rental income in year one.
3. Stage 1 of the ~\$130m redevelopment and expansion of the Wakefield Hospital in Wellington at a total cost of ~\$60m, progressively contributing additional rental income throughout the project and a total annual rental income of ~\$3.4m to date. The balance of this development is expected to commence shortly and is expected to complete in 2023. Total project costs include ~\$20m of operator funded works.

Developments (in progress and completed during FY21) delivered strong incremental returns for unitholders, with an additional \$4.4m in net property income from FY20 as well as \$30.4m of development margins recognised<sup>5</sup>.

## Financial Results

Cash from operations available to unitholders, measured by AFFO, increased 21.8% to \$57.5m. AFFO per unit was 11.54 cents; a 10.4% increase from FY20.

Expenses were \$58.6m, 13.6% higher than FY20 notwithstanding a 26.3% increase in assets.

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<sup>5</sup> Includes development margins booked at Epworth Eastern, with additional net property income to be captured in FY22

Vital's NTA per unit increased by 21.4% to \$2.89 primarily due to \$235m of property revaluation gains. These revaluation gains included ~\$30m in development margins and ~\$17m due to rental increases and leasing.

## Capital Management

Achievements during FY21 include a rewriting of Vital's debt facilities to allow future debt capital markets issuance and an expansion of the financier syndicate.

The debt to total assets ratio was 35.0% at 30 June 2021 (30 June 2020: 38.7%). Given the defensive nature of Vital's portfolio, the Board and Management remain comfortable with both the current and projected levels of debt. Vital currently has approximately A\$144m of headroom under its debt facilities and has asset recycling planned to cover some of its development expenditure.

Vital's all-in weighted average cost of debt at 30 June 2021 was 3.32% (30 June 2020: 3.59%). Weighted average debt maturity at 30 June 2021 was 2.46 years. Although this is an improvement on the 30 June 2020 figure of 1.81 years, it remains below where the Board and Management would like this to be, particularly in light of Vital's industry leading WALE. Measures to extend Vital's debt tenor are underway.

## Board Renewal

Graham Stuart was appointed as Independent Chair to lead a majority independent board following his re-election at Vital's general meeting in November 2020.

In June 2021, long-standing director Bernard Crotty retired from the Board and was replaced by Craig Mitchell who serves as NorthWest's President as well as CEO for the Australia and New Zealand region. His previous roles include Executive Director and Chief Operating Officer of Dexus, an ASX top 50 listed REIT, (with responsibility for finance, funds management and risk) and senior finance roles for Stockland and Westfield.

## FY22 Guidance

The Board and Management are pleased to provide the following FY22 guidance:

- At least 11.8 cpu AFFO; at least 2.0% above FY21.
- 9.5 cpu distributions (payable quarterly); 5.6% above previous annualised distribution guidance maintaining a prudent ~80% payout ratio.

## Outlook

Healthcare property remains a defensive asset class, underpinned by growing demand. Institutional investor recognition and appetite for this asset class continues to accelerate and is highlighted by recent and proposed transactions in New Zealand and Australia (both direct property acquisitions and corporate activity).

As Australasia's leading listed owner of high quality, high acuity healthcare real estate, supported by NorthWest's unmatched development and management expertise, Vital remains well positioned to take advantage of opportunities in this sector.

Our plan for the short to medium term is:

- Continue to deploy Vital's 5-year portfolio strategy (announced previously) including asset recycling to continue to grow earnings and distributions for unitholders whilst maintaining a prudent pay-out ratio of ~80%.
- Focus on the current and potential development pipeline in New Zealand and Australia to provide new and upgraded health facilities for communities across our region.
- Pursue acquisition opportunities across New Zealand and Australia to grow and enhance Vital's existing portfolio and earnings.
- Extend Vital's debt maturity profile and diversify sources of debt to secure returns for Vital's unitholders.
- Consolidate and expand sustainability initiatives as part of NorthWest's comprehensive ESG program to play our part in protecting and enhancing the environment, the communities in which we operate and the stakeholders we serve.

**– 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 (~85% of portfolio value), out-patient facilities (~10% of portfolio value) and aged care (~5% of portfolio value).

Vital is the leading specialist listed landlord of healthcare property in Australasia and currently has a portfolio valued at over \$2.6 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](http://www.vhpt.co.nz)

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

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