Market Release

8 August 2019

Vital delivers a FY19 Normalised Net Distributable Income of $51.0m up 3.8%

Highlights

- Gross rental income increased 7.9% to $101.1m, primarily driven by structured rent reviews[1], completed developments and prior year acquisitions
- Net Property Income up 7.7% to $97.7m following strong same property rental growth and expense containment
- Normalised[2] Net Distributable Income of $51.0m (FY18 $49.1m) an increase of 3.8%
- Distributions increased 2.2% to 8.75cpu, for a Normalised Net Distributable Income payout ratio of 76% and a AFFO payout ratio of 76%
- Portfolio value increased to $1.8bn with occupancy of 99.4% and a weighted average lease term of 18.1 years
- Initiated $218m of projects with a weighted average return on cost of circa 6.1%
- Achieved revaluation gains of $103.6m, a 6.0% increase over the prior year
- Enhanced fee and governance changes proposed subject to a Unit Holder vote
- Delivered a FY19 total return to investors of 27.5%

Vital Healthcare Property Trust ("Vital", NZX:VHP) today announced its 2019 audited full year results, with a statutory net profit after tax of $93.4m, down 6.6% from $100.1m in the prior year. This decrease was primarily due to non-cash losses from interest rate derivatives ($36.3m) and higher income tax due to a change in legislation partially offset by property revaluation gains.

Miles Wentworth, Vital's Interim Manager, said "The Trust's stable portfolio and financial position has delivered a solid core operating result. In addition to seeing the valuation of existing properties increase to $1.8 billion we continue to grow the portfolio through the recently announced projects at Wakefield Hospital in Wellington and Epworth Eastern in Melbourne."

"The healthcare real estate sector continues to experience rising tenant demand and provides Vital investors with a property portfolio which has unique defensive qualities and strong investment characteristics".

Financial results

			Change	
	12 months to 30 June 2019 (NZ$m)	**12 months to 30 June 2018 (NZ$m)**	**NZ$m**	**%**
Gross rental income	101.1	93.7	7.4	7.9%
Net property expenses	(3.4)	(3.0)	(0.4)	(11.6%)
Net property income	97.7	90.7	7.0	7.7%
Finance expense	(32.7)	(23.2)	(9.5)	(41.0%)

[1] Structured rent reviews have an either agreed annual CPI-based rate of increase or a minimum annual increase

[2] Net Distributable Income (NDI) excluding extraordinary and one-off items

Other income and expenses	(29.5)	(27.7)	(1.8)	(6.5%)
Strategic transaction income and expenses	(4.3)	(3.6)	(0.7)	(19.4%)
Normalised net distributable income	51.0	49.1	1.8	3.8%
AFFO	51.0	49.5	1.5	3.0%
Statutory Profit	93.4	100.1	(6.7)	(6.6%)

Revenue growth of $7.4m (up 7.9%) was a result of contributions from the structured rent reviews ($0.9m), completed projects ($2.2m) and a full year contribution from prior year acquisitions ($4.6m).

Like for like property income increased 2.3% to $1.9m, on a same currency basis.

Normalised Net Distributable Income ("NDI") for the year increased by 3.8% to $51.0m (2018: $49.1m) equating to 11.50 cents per unit ("cpu").

Vital's cash earnings (or AFFO) were above net distributable income on a cents per unit basis at 11.50 cpu. This reflects adjustments made under the AFFO methodology, notable being the add back of the Healthscope related transaction net cost of $4.3m and other non-recurring items.

Finance expenses increased from the prior year by $9.5m due to an increase in the drawn debt over the period as a result of funds drawn to fund projects, acquisitions, and strategic land holdings and increased line and margin charges on renewed bank facilities. This finance expense includes a $2.7m interest cost for the A$80.3m Healthscope derivative loan (which was repaid post balance date). Interest income earned from NorthWest on this loan was an equal offset and disclosed as interest income.

Other expenses were higher by $1.8m (6.5%), primarily as a result increased base management fees ($2.0m), non-recurring costs related to corporate governance activities and due diligence costs for opportunities that did not proceed ($1.0m) partially offset by lower incentive fees ($1.0m)[3].

In FY19, there was $4.3m of transaction costs relating to Vital's detailed due diligence on the potential acquisition of an interest in the property of Healthscope Limited (discussed further below).

Allowing for the 2019 revaluation gains of $103.6m partially offset by negative net movements in interest rate derivatives of $36.3m, Vital's NTA increased to $2.31, an increase of 2.0% on the prior year NTA of $2.26.

Property Portfolio

	12 months to 30 June 2019		**12 months to 30 June 2018**	
	CPI linked	**Non-CPI linked**	**CPI linked**	**Non-CPI linked**
Rent reviews undertaken	92	14	99	8
Average rental growth	2.1%	9.1%	2.2%	8.7%

Vital's core portfolio metrics remain consistently strong, with occupancy at 99.4% and the weighted average lease expiry ("WALE") was 18.1 years, and remains the longest WALE of any Australian or New Zealand listed REIT.

During the FY19 year, 106 leases of Vital's 169 leases were subject to a review. The average increase in rental income was 2.2%. The Fund had 2 leases expire (representing 0.25% of the portfolio), two-thirds of this space is located at Ekera Medical Centre and will be used to temporarily decant tenants from Epworth Eastern during construction of the East Tower.

The tail off of the Ascot Hospital fitout rental saw a comparable period reduction in the fitout rental of $573k.

140 leases, representing approximately 90% of total rent, are subject to review in the 2020 financial year, with 97% of this income subject to structured or CPI based reviews.

3.3% of leases (by income) are due to expire in FY2020, management is confident of the renewal of these tenancies on the same or better terms. Over the next 10 years Vital's average annual lease expiry sits at 1.7%, which provides long term earnings visibility.

[3] The incentive fee is calculated in accordance with the Trust Deed and based on the average growth in the value of the Trust's assets over book value for the last three years. The incentive fee is payable by Vital issuing units to the Manager.

Healthcare property valuations have continued to increase, and with the Healthscope transaction having settled with a capitalisation rate of 5.0% (with a quad net lease), we have strong evidence of scale and quality portfolios trading at circa 5% cap rates. We also continue to see significant inbound capital looking to secure a position in the Australia and New Zealand healthcare real estate markets.

Miles Wentworth, Vital's Interim Manager, said "We have seen further firming of capitalisation rates this year due to the Healthscope transaction evidence. Vital's weighted average capitalisation rate firmed by 15 bps to 5.61% and the portfolio value increased to $1.8bn at 30 June 2019".

Acquisitions and Projects

Portfolio additions during the 2019 financial year totalled $25.2m and consisted of:

Property Acquired	**(NZ$m)**
Ormiston Land	9.4
Elizabeth Vale, Adelaide[4]	7.6
Other strategic land holdings in Australia	8.2
Total additions during the Year	**25.2**

These sites were purchased to facilitate future projects adjacent to Vital owned facilities or in Elizabeth Vale's case create a new co-located health precinct adjacent to Adelaide's third largest public hospital.

Projects that are currently underway include:

Property	**Forecast Total Project Value ($m)**	**Spend to 30 June 2019 ($m)**
New Zealand		
Royston Hospital, Napier	NZ$13	NZ$3.1
Wakefield Hospital (Stage 1), Wellington	NZ$37	NZ$7.3
Australia		
Epworth Eastern, Melbourne	A$126	A$12.0
Lingard Day Surgery, Sydney	A$26	A$15.3
The Hills, Sydney	A$9	A$0.0
Total in NZD ($A converted at year end rate of $0.9654)	**NZ$211**	**NZ$39.0**

Miles Wentworth, Vital's Interim Manager, said "Recognising forecast ongoing healthcare demand, Vital has continued to invest in land acquisitions adjacent to existing facilities to support and enhance long term value. Expansion project commitments agreed during the year included Epworth Eastern, Wakefield Hospital and Lingard Day Surgery. The value of these projects is $218m. Vital expects to continue with this investment strategy with a view to supporting the long-term growth of our partners and the underlying assets.

Vital's value-add project programme continues with projects currently underway at 5 hospitals.

"The brownfield development programme is an important component to Vital's value add strategy. Currently contracted forecast rentalised development yields of approximately circa 6.1% provide an attractive spread to Vital's current weighted average capitalisation rate of 5.61%. Brownfield development opportunities will continue to underpin earnings sustainability, enhanced asset quality and long-term value add."

Capital management

As at the end of the financial year the debt to total assets ratio was 38.1% (2018: 37.5%). With the post balance date repayment of the A$80.3m loan by NorthWest, the debt to total assets reduced to 35.3%. With the defensive asset class, unique demand drivers of healthcare, long weighted average lease term of 18.1 years, high occupancy (99.4%) and high quality tenant base, the Fund has a very comfortable level of debt.

[4] The purchase of Elizabeth Vale was purchase on a 50/50 basis with NorthWest Australia, NZ$7.6m is Vital's 50% share

For bank facility purposes the loan to valuation ratio was 41.3% (after allowing for certain strategic properties not subject mortgages and the unsecured related party loan), reducing to 35.5% following the related party loan repayment. Accordingly, Vital currently has approximately $257m of headroom under its debt facilities.

Vital's all-in weighted average cost of debt as at 30 June 2019 was 4.40% (2018: 4.60%) with this decrease being primarily a result of a decline in the floating rate.

Distributions

The 2019 full year distribution was 8.75 cpu, which was consistent with guidance and a 2.2% increase to the FY18 distribution.

This reflects a 76% payout ratio to the Normalised Net Distributable Income and a prudent 76% AFFO payout ratio.

The Board has confirmed that the 2020 financial year cash distribution will be at least 8.75 cpu.

Healthscope recap

In early 2018, Vital and NorthWest Healthcare Properties REIT (NWH REIT) agreed to jointly pursue the acquisition of the Healthscope real estate opportunity. A derivative contract (with caps and collars to manage risk) was entered into in regard to Healthscope shares to obtain influence over the real estate outcome in the proposed transaction.

After significant consideration, it was determined by Vital's Board of Directors to not proceed in the Healthscope real estate opportunity. Declining to participate in this opportunity was exceptionally difficult, but taking into account a broad range of considerations (including Vital's investment objectives, the structure of the transaction, Vital's prevailing cost of equity and market feedback).

As part of the derivative contract, a related party loan of A$80.3m was provided to NWH REIT as part of the derivative contract. This loan was fully repaid post balance date

The cost to Vital in FY19 of investigating the $1.25 billion Healthscope transaction (Vital was considering a 50% interest) was $4.3m.

Fees and Governance

On 1 April 2019 it was announced that a conditional agreement on a new governance and fees structure had been reached between the Independent Directors and the Vital Manager's parent, NorthWest Healthcare Properties REIT ("NWH REIT").

The proposed enhanced fee and governance amendments will be put to a unitholder vote at the AGM. Refer to the appendix in the Results Presentation for the details of the proposed fee changes.

Outlook

Miles Wentworth, Vital's Interim Manager, said "We have started the FY20 financial year in a strong position. Vital's investment thesis is backed by underlying long term trends and we continue to see strong demographic and technological trends driving demand for healthcare services – especially those delivered from quality healthcare infrastructure and by market leading operators, like those in Vital's portfolio."

"With the NorthWest team in this region consisting of over 40 professionals in Auckland, Melbourne and Sydney we have further solidified our portfolio management capability, continuing to drive strong outcomes for Vital investors."

"We continue to support the growth demands of our partners, which enables us to drive our operating, portfolio and financial results, delivering sustainable distributions and creating long term value for investors" said Mr Wentworth.

The 2020 financial year will have a strong focus on the delivery of our two major projects at Wakefield and Epworth Eastern.

Vital's management team will present these results via a live webcast from 11.30 am NZ time today. Please refer to our market release dated 6 August 2019 for details or click here.

– ENDS -

ENQUIRIES

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About Vital Healthcare Property:

Vital Healthcare Property Trust is an NZX-listed fund that invests in high-quality health and medical-related properties in New Zealand and Australia. Our tenants are hospital and healthcare operators who provide a wide range of medical and health services.

With a core focus on healthcare real estate, we understand and accommodate the needs of our healthcare tenants. We operate in a niche segment of the property market, characterised by long weighted average lease terms and high occupancy rates and with an ageing population across both countries, it’s also one that’s growing.

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