

# Market Release

27 February 2018

## Vital announces interim FY2018 results

Vital Healthcare Property Trust (Vital) today released its interim results for the six months ended 31 December 2017 and confirmed a second quarter cash distribution of 2.125 cents per unit will be paid to unitholders on 29 March 2018.

### Highlights

- ▶ **Portfolio lease term** increased to 18.6 years (from 17.7 years at 30 June 2017), while retaining high occupancy levels at 99.3%
- ▶ **Same property NOI** increased 3.5% over the prior year period
- ▶ **Net Distributable Income** of \$22.8m or 5.26c per unit
- ▶ **AFFO per unit** of 5.40c, generating a sector leading payout ratio of approximately 79%
- ▶ **Cap rate** firmed to 5.85% (from 6.03% at 30 June 2017), generating an interim gain of \$42.8m
- ▶ **NTA per unit** of \$2.19, up 7% from 30 June 2017
- ▶ **Finance costs** declined 57bps to 4.09%, gearing at 36.8%
- ▶ **Acquisition** of Acurity New Zealand Hospital portfolio, Eden Rehabilitation Hospital and The Hills Clinic in Australia for NZ\$187m
- ▶ **Development** pipeline (6 projects) of approximately NZ\$144m over the next four years
- ▶ **Management integration** further strengthening market leading Australasian healthcare platform

David Carr, Chief Executive of Vital's Manager, said, "Aligning with our core strategy, many of Vital's recent acquisitions have been 'off-market' sale and leaseback investments. These opportunities enable Vital to work closely with our partners and be thoughtful about lease terms in order to deliver exceptional long term outcomes. Many of these investments include attractive future development opportunities where we continue to support our partners with long-term capital, backed by undeniable demographic and healthcare demand trends.

Notwithstanding a busy period looking at new opportunities the team continues to ensure that the core portfolio remains in great shape. Over the six months we extended our market leading portfolio lease term from 17.7 years to 18.6 years and continued to maintain portfolio occupancy over 99%.

Investment trends in healthcare real estate, with long-term leases and positive demographic demand trends, remain competitive, leading to further yield compression in our sector. Accordingly, we continue to see positive revaluations which has been a consistent driver of NTA growth over recent years, under-pinning unit price performance.

We retain a positive outlook and we are excited about a range of asset management initiatives and potential opportunities over the remainder of 2018," said Mr Carr.

### Management integration further strengthens market leading Australasian platform

In January 2018, Vital's management company announced the integration of its New Zealand and Australian management platforms. Effective today, Vital's manager will transition to its new name, NorthWest Healthcare Properties Management Limited from Vital Healthcare Management Limited. Vital Healthcare Property Trust's name will not change, nor will its NZX ticker symbol "VHP".

David Carr and Stuart Harrison will continue as Chief Executive Officer and Chief Financial Officer, respectively. There is no change to Vital's well defined strategy, remaining absolutely focused on healthcare real estate investment with a continued focus on distribution sustainability and long-term value creation.

Vital unitholders will benefit from a larger team working on their behalf, in both New Zealand and Australia, strengthening and broadening key relationships as Australasia's pre-eminent healthcare management platform.

## Interim valuations and portfolio activity

In order to assess whether any valuation change has occurred for the half year to 31 December 2017, the incumbent independent valuers from 30 June 2017 were commissioned to provide external desktop reviews. As a result, Vital recorded an increase of \$42.8m in the fair value of its portfolio to \$1.67bn, or 2.9% over carrying book value. The increase is over and above acquisitions and development expenditure incurred in the period.

Vital's WACR for the six months to 31 December 2017 firmed approximately 17 bps to 5.85%. The Australian portfolio reported a 16 bps firming in capitalisation rate to 5.85% and the New Zealand portfolio firmed 14 bps to 5.86%. The valuation uplift was primarily driven by firmer capitalisation rates, but also supported by incremental increases in income as a result of rent reviews over the period.

Vital's WALE increased to 18.6 years (from 17.7 years) primarily reflecting the recent acquisition of the Acurity portfolio with initial lease terms of 30 years. The long WALE and consistently high occupancy levels of above 99% are portfolio traits that underpin Vital's sustainable distribution and reflect the depth of established long-term relationships with key partners.

A total of 31 rent reviews (approximately 22% of total income) were completed to 31 December 2017, resulting in rent growth of 1.1%. With around 45% of Vital's total income remaining subject to review to 30 June 2018, we expect these reviews will contribute to forecast income growth over the period approximately in line with inflation.

With a relatively benign lease expiry profile at the start of FY18 representing 1.7% of total income (22 leases), approximately half of these renewals or expiries are now completed, with a 100% retention rate. We look to resolve the remaining expiries over the next six months with a high expectation of renewal and we also continue to proactively focus on expiries beyond 2018.

## Financial performance

Gross rental income grew 17.9% during the period after adjusting for a one-off lease termination receipt of \$13.8m relating to two Gold Coast properties in the prior year. After property expenses, net income grew 16.6%.

This strong operating result was driven by same-property income growth of 3.5% and over NZ\$410m of acquisitions and approximately NZ\$40m of developments over the last 24 months.

Finance expense of \$10.5m was up 55% from the prior year owing to higher overall debt levels during the last 12 months. This reflects significant acquisition and development activity following the pay down of bank facilities on the back of the July 2016 capital raise.

Other expenses increased to \$12.8m primarily the result of an accrual provision for a manager incentive fee of \$5.8m (\$3.5m in 1H17) along with base management fees increasing to \$5.6m (\$3.7m in 1H17) due to the higher asset base over the previous period. The incentive fee provision is calculated in accordance with the Trust Deed and based on the average increase in the value of the Trust's assets over book value for the last three years, and does not crystallise until the end of the financial year following completion of the 30 June 2018 year-end independent asset valuations.

Net distributable income for the period was \$22.8m equating to 5.26 cpu. Adjusting for income related to a one-off lease termination and rental reversion on re-leasing at two Gold Coast properties, net distributable income per unit for the period increased 3.5% from the prior year. AFFO, which adjusts for maintenance capital expenditure and lease incentives, was broadly in line with net distributable income on a per unit basis.

For the six months to 31 December 2017, Vital's AFFO payout ratio reflected a prudent and sustainable 79%.

## Treasury & capital management

Vital's loan-to-value ratio (LVR) was 36.8% at 31 December 2017, up from 24.4% the same time last year. It remains well below bank and Trust Deed covenants of 50%. Accordingly, the Trust maintains an appropriate level of flexibility to finance announced development commitments over the next four years.

Partially offsetting the increased finance expense due to higher gearing was a 57bps decrease in Vital's weighted average cost of debt to 4.09% (including bank line and margin fees) compared to the prior year.

At year end Vital had a hedged interest rate position of 51.9% with a 5.76 year average duration.

## Acquisitions

Vital acquired five properties in the first half of the year for a total cost of NZ\$187m.

In July 2017, Vital closed on the acquisition of The Hills Clinic in Kellyville, NSW, 40km north-west of the Sydney CBD for A\$30.3m. The Hills is a two-storied purpose-built mental health hospital leased to Health Care, Australia's third largest corporate private hospital operator and pan-Asian healthcare services group, on a 30-year lease.

In December 2017, Vital acquired Eden Rehabilitation Hospital in Cooroy, Queensland for A\$23.8m. Eden is a private rehabilitation hospital leased to Health Care Australia for 20 years, with future brownfield potential.

Also in December 2017, Vital received OIO approval to acquire the previously announced Wakefield and Bowen Hospitals in Wellington and acquired a third asset from Acurity Health Group, Royston Hospital in Hastings, for a combined NZ\$122m. Vital has also committed to fund up to NZ\$106.5m of brownfield development at the three hospitals over the next four years.

## Development activity

In the first half of the year, Vital completed brownfield developments at Sportsmed Consulting in Adelaide, Maitland Private Hospital in NSW and the Palm Beach Currumbin Clinic in Queensland representing value-add investments of approximately A\$20m over the life of these projects.

Three further projects, totalling approximately A\$34m remain in various stages of development. The projects will facilitate expansion of healthcare services including additional operating theatres, ward expansions and new consulting suites to meet increased demand for services. These three projects are forecast for completion between April and June 2018, with approximately A\$21m in costs to complete.

The longer term brownfield development programme, which totals approximately NZ\$144m including the aforementioned projects under construction and planned works in the Acurity portfolio, remains a core part of Vital's scale and diversification strategy. It will continue to underpin earnings sustainability, improve asset quality and enhance long-term value.

## Distribution

The Board confirmed that investors will receive a second quarter distribution of 2.125 cents per unit with 0.1543 cpu of imputation credits attached. The record date is 15 March 2018 and payment will be made on 29 March 2018. Vital's Distribution Reinvestment Plan remains available to investors for this distribution with a 1.0% discount being applied when determining the strike price.

The Board has also reconfirmed its full year guidance for a cash distribution of 8.5 cents per unit.

## Outlook

Mr Carr said "With a solid foundation and a defensive and resilient portfolio position, we look forward to the continued execution of our disciplined scale and diversification strategy.

Irrespective of periodic political or regulatory interference in otherwise entrenched healthcare systems in New Zealand and Australia, we continue to see strong demographic, aging and technological trends driving demand for healthcare services – delivered from quality healthcare infrastructure. Vital is at the forefront of this structural growth opportunity with the most experienced healthcare real estate management team in Australasia and the reputation as a preferred healthcare real estate capital partner, we are well placed for the future".

Vital's management team will present these results via a live webcast from 2pm NZ time today. Please refer to our market release dated 13 February 2018 for details or click [here](#).

**- ENDS -**

## ENQUIRIES

David Carr, Chief Executive Officer

NorthWest Healthcare Properties Management Ltd, Telephone 09 973 7301, Email [dcarr@vhpt.co.nz](mailto:dcarr@vhpt.co.nz)

Stuart Harrison, Chief Financial Officer

NorthWest Healthcare Properties Management Ltd, Telephone 09 973 7302, Email [sharrison@vhpt.co.nz](mailto:sharrison@vhpt.co.nz)

Jason Kepecs, Manager, Investor Relations

NorthWest Healthcare Properties Management Ltd, Telephone 09 973 7303, Email [jkepecs@vhpt.co.nz](mailto:jkepecs@vhpt.co.nz)

## About Vital Healthcare Property Trust

Vital Healthcare Property Trust (NZX: 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. The Manager of Vital Healthcare Property Trust is NorthWest Healthcare Properties Management Limited (formerly Vital Healthcare Management Limited).

[vhpt.co.nz](http://vhpt.co.nz)