Market Release

23 February 2017

Vital delivers strong interim result

Vital Healthcare Property Trust (Vital) today released its interim results for the six months ended 31 December 2016 and has confirmed a second quarter cash distribution of 2.125 cents per unit will be paid to unitholders on 23 March 2017.

Highlights

- 12 month total return to 31 December 2016 of 13.7%, outperforming the S&P/NZX All Real Estate Gross Index return of 2.7%
- Gross rental income of $51.8m[1], up 54.4%
- Operating profit before tax of $42.2m, up 58.4%
- Net distributable income of $35.5m, up 87%
- Interim revaluation gain of $13.1m, a 1.2% increase on carrying book value
- NTA per unit of $1.67, up 11% or 16 cents per unit from 30 June 2016
- Portfolio WACR[2] firmed 30 basis points (bps) to 6.90%
- Acquisition of two medical office buildings (MOBs) in Melbourne and Sydney for A$55m
- Market leading WALE[3] of 17.6 years, occupancy levels at 99.0% and rent review growth of 1.2%

David Carr, Chief Executive of Vital Healthcare Management Limited (the Manager), said "At the half way point in the 2017 financial year we have successfully advanced our scale and diversification strategy. Following the strongly supported $160m capital raising in July we completed acquisitions of two quality MOBs and a number of strategic sites around existing core assets. This diversification and flexibility for growth is an important part of Vital's plan as we continue with our very successful brownfield development programme, working closely with both existing and potential operating partners.

Vital is in a strong capital and portfolio position. Its sustainable distribution, coupled with a conservative payout ratio, means we are well placed to execute on our embedded strategy including long-term value creation. Our activities continue to be validated through independent property valuations, strong total unitholder returns and market leading unit price premium to NTA.

Undeniable population, ageing and wider healthcare demand trends continue to support our robust investment thesis. We retain a positive outlook and we remain excited about a range of potential opportunities over the remainder of 2017" said Mr Carr.

Interim valuations and portfolio activity

In order to assess whether any valuation change has occurred for the half year to 31 December, the incumbent independent valuers from 30 June 2016 were commissioned to provide external desk-top reviews on a non-reliance basis. As a result, Vital recorded an increase in the fair value of its portfolio of $13.1m or 1.2%. The increase is over and above acquisitions and development expenditure incurred in the period.

Following the interim revaluation process, Vital's WACR for the six months to 31 December firmed approximately 30 bps to 6.9%. The Australian portfolio reported a 30 bps firming in capitalisation rate to 6.9% and the New Zealand portfolio firmed 10 bps to 6.8%. 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.

Mr Carr said "We continue to see market evidence driving the strong directional firming of capitalisation rates for healthcare real estate. Quality assets, like those in Vital's portfolio are in high demand as the competitive

1 Includes lease termination receipt of $13.8m
2 Weighted Average Capitalisation Rate
3 Weighted Average Lease Term to Expiry

landscape continues to evolve. This demand is supported by a weight of capital looking for social infrastructure opportunities with excellent tenant covenants, strong underlying investment and demographic themes with the ability to add incremental value over time".

Vital's WALE stands at 17.6 years with occupancy at 99.0%. The long WALE and consistently high occupancy levels are portfolio traits that underpin Vital's sustainable distribution and reflect the depth of established long-term relationships with our key partners.

A total of 33 rent reviews (approximately 20% of total income) were completed to 31 December, resulting in rent growth of 1.2%. With around 65% of Vital's total income remaining subject to review to 30 June 2017, we expect these reviews will contribute to continued income growth over the period.

With a lease expiry profile at the start of FY17 representing 2.4% of total income, approximately 71% of these renewals or expiries are now completed. We look to resolve the remaining few expiries over the next six months as we also continue to proactively focus on expiries beyond 2017 and current vacancies.

Acquisitions

Vital acquired two MOBs in the first half of the year. The first was Mons Road Medical Centre (Mons Road) in Westmead, Sydney for A$30.7m. Mons Road is a modern, multi-tenanted, four-level building providing excellent tenant and asset diversification.

Located within the Westmead medical precinct, one of Australia's largest health service precincts, Mons Road has a mix of high quality tenants including Castlereagh Imaging, one of the largest networks of radiology practices in NSW and a subsidiary of ASX-listed Sonic Healthcare. Other tenants include IVF Australia, owned by ASX-listed Virtus Health and Ramsay Health Care.

In November Vital acquired a majority interest in Ekera Medical Centre (Ekera) for A$24.4m. Ekera is a modern, multi-tenanted, four-level MOB in Melbourne's Box Hill medical precinct. The precinct includes the recently redeveloped 400 bed, ten theatre Box Hill Public Hospital and Vital's own Epworth Eastern Hospital (223 beds and ten theatres) and Medical Centre (18 fully occupied consulting suites).

With over A$130m invested in two properties comprising the Epworth Eastern Campus, Vital is the largest private healthcare real estate investor in the precinct. With the expansion undertaken at Epworth Eastern Hospital last year, Ekera provides a modern asset to support future masterplan initiatives. Ekera's major tenant is Imaging Associates, representing approximately 40% of rental income. Other tenants include Sonic Healthcare, Monash IVF (ASX-listed) and Sportsmed Biologic.

Development activity update

In the first half of FY17 Vital completed A$18.3m of brownfield development at South Eastern Private Hospital and Dubbo Private Hospital.

Five development projects, totalling approximately A$63m are currently underway. The projects include a mix of modernisation and expansion at acute surgical and mental health facilities to meet the growing demand for healthcare services. Included in the above is the most recent A$6.3m commitment at the Palm Beach Currumbin Clinic, investing in new consulting suites and the conversion of double rooms to single rooms, with the project forecast for completion in October 2017.

The brownfield redevelopment programme 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.

Treasury & capital management

In July 2016 Vital successfully completed a $160m capital raising, with the funds received utilised to reduce bank debt providing substantial balance sheet capacity. As at 31 December 2016 Vital's loan-to-value ratio was 24.4%, with this ratio well below the bank and Trust Deed covenants of 50%.

The finance expense of $6.8m is 5.6% lower than the prior period and reflects the receipt of funds from the capital raise and a lower interest rate with the weighted average cost of debt reduced to 4.66% compared to 5.16% in the prior period. Vital's treasury policies remain well managed and continue to operate effectively to minimise earnings volatility. At 31 December, Vital maintained a bank debt hedged position of 81.7% versus 78.6% at the comparable period end. An increase in market interest rates over the period saw the unrealised marked-to-market valuation on those interest rate swaps improve by $8.1m.

Financial Performance

During the period Vital received a one-off lease termination receipt of $13.8m as part of rent, make-good and other future obligations at its two properties located in Southport on the Gold Coast of Queensland, Australia. This receipt along with a combination of development income and acquisitions over the period contributed to gross rents of $51.8m which was $18.2m or 54.4% ahead of the prior period.

Other expenses increased to $8.6m (up $2.4m on HY16) primarily as a result of an accrual provision for a Manager incentive fee of $3.5m (HY16: $2.3m) along with base management fees increasing to $3.7m (HY16: $2.9m) due to the higher asset base over the previous period. The incentive fee is calculated in accordance with the Trust Deed and does not crystallise until the end of the financial year following completion of the 30 June 2017 year-end independent asset valuations.

Gross distributable income for the period was $39.9m while net distributable income increased to $35.5m. Vital reported a net distributable income per unit for the six months to 31 December 2016 of 8.56 cents per unit (cpu), however it is noted that this included the benefit of the one off lease termination receipt and associated tax expense. Adjusting for this, net distributable income per unit would have been approximately 5.73 cpu (HY16: 5.52 cpu).

Vital's NTA per unit is $1.67 or 16 cents per unit higher than as at 30 June 2016. The core drivers of the NTA increase included the capital raising that occurred at a premium to NTA and the increase in the fair value of the portfolio over the period.

Distributions

The Board has confirmed that investors will receive a second quarter distribution of 2.125 cents per unit with 0.0914 cpu of imputation credits attached. The record date is 9 March 2017 and payment will be made on 23 March 2017. 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 "Vital remains in an enviable position. Following completion of the $160m capital raising in July, we have a strong balance sheet with flexibility to continue to execute on our disciplined scale and diversification strategy.

In addition to a high quality healthcare real estate portfolio, our strategic direction remains underpinned by undeniable healthcare trends. This is further cemented with established tenant partnerships as we continue to support their growth aspirations and look to foster new partnerships across the sector.

I look forward to updating investors over the course of 2017 as the management team looks to execute on the Board's intent to deliver sustainable distributions and long-term value creation for unitholders".

Vital's management team will present these results via a live webcast from 11am NZ time today. Please refer to our market release dated 13 February 2017 for details or click here.

– ENDS -

ENQUIRIES

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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 Vital Healthcare Management Limited.

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