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GENERATION HEALTHCARE REIT

ASX Announcement

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The Manager
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Generation Healthcare REIT (ASX Code: GHC)

Generation Healthcare REIT reports a 3% increase in its 2017 half year underlying net operating income

Generation Healthcare REIT ('GHC' or the 'Fund') is pleased to announce its financial result for the half year ended 31 December 2016.

Key highlights

- Statutory profit of $43.7 million, up 195% from $14.8 million in the prior corresponding period (pcp);
- Underlying[1] net operating income (UNOI) of $11.2 million, up 3% from $10.8 million in the pcp;
- Underlying[1] net operating income per unit of 5.10 cents, up 1.0% from 5.05 cents in the pcp;
- Distributions per unit of 4.4865 cents for the half year, up 1.5% on the 4.42 cents in the pcp;
- Made a debt investment into the Epping Medical Centre of $28.7m;
- Acquired an expansion site adjacent to Westmead Rehabilitation for $0.8 million plus costs (acquired January 2017);
- Entered into an unconditional contract to sell Leading Healthcare Bendigo for $12 million;
- Nearing completion on two of the Funds' organic growth projects, totalling circa $160 million (GHC share $74 million), at Casey Stage 2 and the Frankston Private Hospital expansion; and
- Obtained planning approval and progressed design at the $72 million Clarendon St projects (GHC share $36 million).

[1] UNOI excludes: property revaluations, movements in derivatives, lease surrender and new tenant incentive associated with change of a significant tenant at ARCBS and Manager's performance fees.

GENERATION HEALTHCARE REIT

Commenting on the first half result, GHC's Chief Executive Officer, Miles Wentworth said "The half year result demonstrates a solid growth in net property income, good progress with the Funds' two organic growth projects combined with strong growth in property valuations. We believe this recognises our active property management and development, combined with the ongoing re-rating of healthcare property as an asset class. Investors are increasingly recognising the defensive characteristics and attractive, risk adjusted returns that high quality healthcare property provides".

Financial results

Underlying net operating income was up 3% to $11.2 million for the 2017 financial half year primarily due to a combination of:

- like-for-like property rental growth of 2.9%;
- increase to full occupancy at Casey Specialist Centre;
- rental income from the Waratah ground floor suites (acquired January 2016);
- reduction in ground rent expense due to the acquisition of the Victoria Parade freehold site;
- interest income from the debt investment into Epping Medical Centre;
- partially offset by higher finance costs due to increased borrowings to fund the Waratah ground floor suites, Epping Medical Centre and Victoria Parade investments; and
- higher management fees given the increased funds under management.

Statutory profit of $43.7 million was 195% higher than the prior corresponding half year's profit of $14.8 million, principally as a result of the 3% increase in underlying net operating income, a material net revaluation gain for investment properties and gain on the fair value of derivatives.

The net tangible asset (NTA) backing per unit increased 11.6% ($0.16) from $1.38 to $1.54 as at 31 December 2016. The increase is principally attributable to the revaluation gain of investment properties and the decrease in the derivative liability.

Net debt to total assets was 34.2%, up 5.9 percentage points from 28.3% at 30 June 2016. The increase was principally as a result of debt funding of the investment in Epping Medical Centre and the projects under construction at Casey 2 and Frankston Private, partially reduced by a material increase in the value of the property portfolio.

Property update

There were revaluation increases to the property portfolio of $26.6[2] million over the 6 month period to 31 December 2016 following the independent and directors valuations. These increases reflects investors continued appetite for yield but also the market's greater understanding of healthcare real estate and its associated positive re-rating. Properties independently valued at 31 December 2016, saw an increase of 9.6% while internally valued properties recorded a more modest increase of 0.7%.

[2] Includes straight line lease revenue recognition but excludes minority interests.

Key portfolio metrics for the period include:

- Like-for-like rental growth of 2.9%;
- Continued high occupancy of 98.7%;
- A weighted average lease term to expiry (WALTE) of 12.1 years;
- Tenant retention of 61% - this was lower than past periods due to the expiry of the Healthscope lease for medical consulting at Pacific Private where certain of the doctors relocated to the new Gold Coast hospital; and
- A 5.7% increase in the Fund's property values (on a like-for-like basis) reflecting a weighted average capitalisation rate of 6.67% (compared to 7.01% as at 30 June 2016).

Organic Growth Projects

Frankston Private Expansion

- Progress on site has gone well with the $45.5 million (GHC share $29.5 million) project now drawing to a successful close, earlier than previously guided. As at 31 January 2017, the project was 76% complete with practical completion expected in April 2017.

Casey Stage 2

- This $114.0 million (GHC share $44.8 million) project continues to progress well and remains on budget with completion forecast for late calendar 2017.

Grey Street Centre and Albert St Carpark

- This $72 million project (GHC share $36 million) has now advanced to design development phase. The construction and debt tenders will occur over March and April and assuming successful, the project is forecast to start at the end of FY17, subject to final governance approval.

Announcements, Transactions and Capital Management

A summary of the key announcements and transactions during the half year were:

- In October, the Fund made a debt investment of $28.7 million into Epping Medical Centre. Funding for the transaction was from new and existing debt facilities and was accretive to the Fund's earnings. In addition, the Fund entered into a Put / Call Agreement that would see GHC acquiring a 50% interest in the Epping Medical Centre for $17.50 million (to be funded via partial repayment of the loans) and a three year option to acquire an adjacent 10,000sqm site for $4.0 million.

- In December, the Fund triggered an option to acquire a site for $800k plus costs, adjacent to Westmead Rehabilitation for expansion of the existing hospital over time.

- In December, the Fund entered into an unconditional contract to sell Leading Healthcare Bendigo for $12 million (net proceeds of $11.4 million), a 9% premium to the 30 June 2016 independent valuation. Proceeds have initially been applied to debt reduction (settled January 2017) but will be recycled at the appropriate time.

- In December, the Fund extended $64.5 million of Head Trust debt to March 2019 resulting in a weighted debt expiry of 2.4 years.

Outlook

- The forecast underlying net operating income per unit for FY17 is 10.24 cents
- The previously guided forecast distributions per unit for FY17 of 8.973 cents is reaffirmed

"The Fund continues to be well positioned with a key focus for second half of FY17 being the Fund's organic growth pipeline including progression of the Casey Stage 2 project and managing the completion of the Frankston Private project that will generate strong risk adjusted value for investors. In addition, we will continue to drive value from the existing portfolio and consider new opportunities on the basis that they add value to the Fund." Mr Wentworth said.

ENDS

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About Generation Healthcare REIT

Generation Healthcare REIT (ASX code: GHC), is Australia's only ASX listed healthcare real estate investment entity.

The Fund owns 16 properties including hospitals, medical centres, laboratories, residential aged care facilities and other purpose-built healthcare facilities. The Fund partners with high quality healthcare tenants with strongly diversified income streams. The Fund has total assets of approximately $621 million with investments located in Victoria, New South Wales and Queensland.

www.generationreit.com.au

About APN Funds Management Limited

APN Funds Management Limited (APNFM) is the Responsible Entity of Generation Healthcare REIT. The Board of APNFM consists of four directors, three of which, including the Chairman are Independent Directors. APNFM is a wholly owned subsidiary of APN Property Group Limited (APN) (ASX code: APD), a specialist real estate investment manager.

www.apngroup.com.au

About Generation Healthcare Management Pty Limited

Generation Healthcare REIT ("Generation", the "Fund")(ASX: GHC) benefits from the experience, proven track record, healthcare focus and global platform of its manager, Generation Healthcare Management Pty Ltd, a wholly-owned subsidiary of NorthWest Healthcare Properties REIT ("NWH REIT", the "REIT") (TSX: NWH.UN), a Canadian listed dedicated healthcare real estate investor. The REIT is also strategically aligned as the largest unitholder of GHC.

NWH REIT is a Canadian listed real estate investment trust focused on providing investors with access to a portfolio of high quality international healthcare real estate infrastructure comprised of interests in a diversified portfolio of 139 income-producing properties and 864,000 square metres of gross leasable area located throughout major markets in Canada, Brazil, Germany, Australia and New Zealand. In Canada, the REIT is the largest non-government owner and manager of medical office buildings and healthcare facilities with 62 properties located from coast to coast, including major concentrations in Calgary, Edmonton, Toronto, Montreal, Quebec City and Halifax. In its international markets, the REIT partners with leading healthcare operators and has built leading management platforms in global gateway cities comprised of high quality healthcare real estate infrastructure assets characterised by long term indexed leases and stable occupancies.

NWH REIT is an expert in owning, managing and developing healthcare real estate with a dedicated and growing team of more than 180 professionals located in Auckland, Berlin, Melbourne, Sao Paulo and Toronto.

www.nwhreit.com