

21 August 2014

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Generation Healthcare REIT (ASX Code: GHC)

Generation Healthcare REIT reports a 53% increase in its FY14 underlying net operating income

APN Funds Management Limited, the responsible entity of Generation Healthcare REIT ('GHC' or the 'Fund') is pleased to announce the Fund's financial result for the year ended 30 June 2014.

Key highlights:

- Statutory profit up 97% to \$11.9 million representing 10.53 cents per unit (cpu);
- Underlying¹ net operating income of \$10.4 million, up 53% from \$6.8 million in the prior corresponding period (pcp);
- Underlying¹ net operating income per unit of 9.18 cents, up 3.6% from 8.86 cents in the pcp;
- Distributions per unit of 8.00 cents for the year, up 9% on the 7.34 cents in the pcp;
- Acquired a minority interest in a secured debt investment associated with Waratah Private Hospital;
- Announced \$118.5 million of property transactions comprising:
 - The commencement of the \$19 million Casey Specialist Centre project;
 - The acquisition of 55 Little Edward Street, Brisbane for \$44.5 million;
 - A \$12.5 million investment for the refurbishment and expansion (including lease extension) of Epworth Freemasons Clarendon Street;
 - The entering into of an Agreement for Lease for a new, \$25 million integrated Cancer Centre for Epworth Foundation at Clarendon Street; and
 - The entering into of an Agreement for Lease for a circa \$17.5 million (representing GHC 50% share) expansion of the existing Frankston Private facility (announced post balance date);

¹ UNOI excludes: property revaluations, Manager's performance fees and movements in derivatives

- Raised \$82.8 million in new equity through two equity raisings;
- Reduced balance sheet gearing to 31.3%, reduced debt pricing, extended the term and diversified the maturity risk; and
- Achieved a total return² of 30%, materially outperforming the S&P/ASX 300 A-REIT Accumulation Index return of 11%.

Commenting on the result, GHC's Chief Executive Officer, Miles Wentworth said "The 2014 financial year has been a particularly busy one, having delivered a strong financial result, undertaken high quality acquisitions and positioned the Fund to commence delivery of two attractive organic growth opportunities. The underlying portfolio performance remains strong, with solid rent growth and high tenant retention being achieved. The Fund continues to outperform the market and is well positioned for future growth."

Financial results

Underlying net operating income was up 53% to \$10.4 million for the 2014 financial year due to a combination of:

- like-for-like property rental growth of 2.7%;
- a full years rent contribution from Leading Healthcare Bendigo and Westmead Rehabilitation Hospital;
- a small contribution from the additional investment in Epworth Freemasons Private Hospital and the acquisition of 55 Little Edward Street, Brisbane both in June 2014;
- Interest income on the secured debt investment associated with Waratah Private Hospital; and
- Lower finance costs due to having negotiated lower line and margin fees and repayment of debt from part of the proceeds of the two equity raisings during the year.

Statutory profit of \$11.9 million was 97% higher than the prior year's profit of \$6.0 million, principally as a result of a 53% increase in underlying net operating income, a net gain on the change in value of investment properties, (compared to a loss in the pcip), partially offset by a net loss on the change in fair value of derivatives (compared to a gain in the pcip) and an increase in the performance fee to the Manager.

Net tangible asset (NTA) backing per unit was \$1.07 as at 30 June 2014, an increase of 9.2% (\$0.09) from \$0.98 in the pcip. The increase is principally attributable to the two equity raisings undertaken at a price premium to NTA and an increase in the property values of the underlying portfolio, partially offset by the issue of units to the Manager for a performance fee.

Net debt to total assets was 31.3%, down 16.3 percentage points from 47.6% at 30 June 2013, principally as a result of a strategy to fund the current year acquisitions / investments with equity thereby creating the balance sheet capacity to deliver the two fully pre leased organic growth projects.

² Capital appreciation of GHC units during the year, assuming reinvestment of distributions paid

Operational performance

Net property income for the 2014 financial year increased by 16.3% to \$18.6 million compared with \$16.0 million in the pc.p. Factors contributing to this increase were:

- full year contribution from Leading Healthcare Bendigo and Westmead Rehabilitation Hospital;
- a small contribution following the purchase of the medical office building in June 2014;
- one month's contribution following the additional investment in Epworth Freemasons Clarendon Street in June 2014;
- full year contributions following material market rent reviews at Epworth Freemasons Private Hospital in March 2013 and the Boulderstone tenancy (at ARCBS) in April 2013; and
- a combination of fixed and CPI increases on the remaining tenancies within the portfolio.

Property update

The property portfolio increased by \$77.8 million (34.6%) to \$302.5 million at 30 June 2014 primarily the result of the acquisition of a medical office building in Brisbane and additional investment at Epworth Freemasons totalling \$57 million, transactions that further enhanced portfolio metrics and tenant diversification. The commencement of the Casey Specialist Centre project (\$9.3 million book value as at 30 June 2014) and property revaluations of \$7.9 million were also contributing factors.

Key portfolio metrics for the period include:

- Like-for-like rental growth of 2.7%;
- Continued high occupancy of 99.5%;
- A weighted average lease term to expiry (WALTE) of 11.3 years;
- A retention rate of 89.1% (by income) of the 17 leases that expired during the period, delivering a 1.82% average increase in rents; and
- A 5% increase in the Fund's property values (on a like-for-like basis) reflecting a weighted average capitalisation rate of 8.24%.

The Casey Stage 1 project being an integrated cancer focussed specialist centre is progressing well. It is expected to be delivered on time and on budget with a forecast practical completion date of November 2014, followed by a tenant funded fitout period resulting in a rent start date of 1 February 2015.

Transactions and Capital Management

A summary of the key transactions completed for the year included:

- In September 2013, the Fund acquired a minority interest in a secured debt investment associated with Waratah Private Hospital (formerly known as Medica Centre). The \$8.5 million investment (book value as at 30 June 2014) was funded from undrawn debt lines.

- In November 2013, an \$18 million equity raising at \$1.14 per unit was launched via an institutional placement and unit purchase plan (UPP) to majority fund the \$19 million Casey Specialist Centre project.
- In November 2013, one debt facility limit was increased by \$6.9 million to part fund the Casey Specialist Centre and provide additional working capital. The facility of \$77.8 million was renegotiated at reduced margins with extended and staggered maturity terms. A second debt facility was also renegotiated at reduced margins.
- In May 2014, the Fund announced \$83.5 million of property transactions. This comprised the acquisition of a medical office building in Queensland for \$44.5³ million, a \$12.5 million contribution to a major refurbishment and expansion (including lease extension) of Epworth Freemasons Private Hospital and the entering into of an Agreement for Lease for a new, \$25 million integrated Cancer Centre for Epworth Foundation at Clarendon Street. These transactions were funded by a \$64.8 million equity raising at \$1.20 per unit.
- Also in May 2014, the Fund announced the renegotiation of the terms of its \$41.2 million debt facility with the Bank of Melbourne, resulting in a reduction in margin fees of 50 basis points, all other terms remaining unchanged.

Post balance date the Fund announced its 50% owned Joint Venture entity, Divine Logistics Trust, had entered into a series of contracts with Healthscope Limited (Healthscope) in relation to Frankston Private. These contracts and various interdependent business sale agreements resulted in Healthscope acquiring the businesses of two existing Frankston Private tenants (approximately 49% of the existing rent roll of the property) being Frankston Private Day Surgery and Peninsula Oncology Centre, extending the term of those leases by 18 years and signing an Agreement for Lease for a major expansion of the existing facility based on a return on total project cost of 8.50% and a 20 year head lease.

On 20 August 2014, the Fund announced that it had entered into a non-binding memorandum of understanding with St John of God Health Care in relation to stages 2 and 3 at the Fund's site at 55 Kangan Drive, Casey, Victoria. Subject to agreeing outstanding commercial matters and satisfaction of pre conditions, including respective Board approvals, the parties will progress Stage 2 concept plans to develop a scale private hospital comprising 190 beds, six operating theatres, six birthing suites, a cardiac/vascular catheter laboratory, two endoscopy theatres, medical consulting suites and associated car parks. The total project cost is currently estimated at approximately \$120 million with the base building (shell) and car park to be jointly owned by both parties and the building fit out to be owned by St John of God Health Care. In the medium to longer term, the master plan includes a Stage 3 for further capacity expansion to include additional operating theatres, beds and consulting space.

³ Excludes \$1.5 million contingent consideration payable if the vendor delivers a 10 year lease to a health tenant by 30 September 2014

Outlook

The guidance previously provided for FY15 is reaffirmed as follows:

- Forecast underlying net operating income per unit of 9.20 cents
- Forecast distributions per unit of 8.40 cents, an increase of 5% on FY14's 8.00 cents

"The Fund continues to be well positioned to provide investors with a secure and growing income stream with the management team progressing a number of opportunities for continued growth in income and value." Mr Wentworth said.

Yours sincerely



John Freemantle
Company Secretary

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About Generation Healthcare REIT

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

The portfolio of eleven properties includes hospitals, medical centres, laboratories and other purpose-built healthcare facilities. The Fund partners with high quality healthcare tenants with strongly diversified income streams. The Fund has total assets under management of \$325 million with investments located in Victoria, New South Wales and Queensland.

generationreit.com.au

About APN Property Group

APN Property Group Limited (ASX code: APD) is a specialist real estate investment manager.

Since 1996, APN has been actively investing in, developing and managing real estate and real estate securities on behalf of institutions, superannuation funds, high net worth and individual investors. APN's focus is on delivering superior investment performance and outstanding service. Performance is underpinned by a highly disciplined investment approach and a deep understanding of commercial real estate.

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