GENERATION HEALTHCARE REIT

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ASX Announcement

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Generation Healthcare REIT (ASX Code: GHC)

Generation Healthcare REIT reports a 28% increase in its 2016 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 2015.

Key highlights

- Statutory profit of $14.8 million, up 87% from $7.9 million in the prior corresponding period (pcp);
- Underlying[1] net operating income (UNOI) of $10.8 million, up 28% from $8.4 million in the pcp;
- Underlying[1] net operating income per unit of 5.05 cents, up 5.0% from 4.81 cents in the pcp;
- Distributions per unit of 4.42 cents for the half year, up 5.2% on the 4.20 cents in the pcp;
- Activated two of the Funds' organic growth projects, totalling $165 million (GHC share $74 million), with financial close and commencement of construction occurring at Casey Stage 2 and the Frankston Private Hospital expansion;
- Completed the acquisition of the freehold interest at Epworth Freemasons Victoria Parade and 6 retail suites at Waratah Private Hospital;
- S&P/ASX 300 Index inclusion effective 18 September 2015;
- Achieved a total return[2] for the 6 months of 26.3%, materially outperforming the S&P/ASX 300 A-REIT Accumulation Index return by 19.1%; and
- The Fund received industry recognition from the Australian Property Institute and BDO International.

[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
[2] Capital appreciation of GHC units during the half year to 31 December 2015, assuming reinvestment of distributions paid

Commenting on the first half result, GHC's Chief Executive Officer, Miles Wentworth said "The strong half year operating result, in conjunction with initiating two of the Fund's key organic growth projects and inclusion in the S&P/ASX300 Index, culminated in a strong total return performance of 26.3% for Fund investors. We believe this recognises our active property management and development, combined with the continued 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 28% to $10.8 million for the 2016 financial half year primarily due to a combination of:

- like-for-like property rental growth of 2.1%;
- a full six month contribution following the acquisition of three aged care facilities from RSL Care in June 2015;
- a full six month contribution following the February 2015 completion of the Casey stage 1 project;
- Lower finance costs due to a full six month contribution from lower line and margin fees, lower floating rates and entering into some blend and extends of existing swaps; and
- Partially offset by higher management fees and general fund expenses given the increased funds under management.

Statutory profit of $14.8 million was 87% higher than the prior corresponding half year's profit of $7.9 million, principally as a result of the 28% increase in underlying net operating income and a material net revaluation gain for investment properties, partially offset by an increase in the performance fee to the Manager.

Net tangible asset (NTA) backing per unit increased 2.5% ($0.03) from $1.22 to $1.25 as at 31 December 2015. The increase is principally attributable to the revaluation gain of investment properties, partially reduced by an increase in the performance fee payable to the Manager and an increase in the derivative liability.

Net debt to total assets was 28.9%, up 2.3 percentage points from 26.6% at 30 June 2015. The increase was principally as a result of debt funding being used to settle the acquisition of the freehold interest at Epworth Freemasons Victoria Parade and the payment of a margin share to a lessee partially reduced by a material increase in the value of the property portfolio. The balance sheet capacity created through recent equity raises is being utilised to deliver the Funds' organic growth projects while maintaining the Fund's capital structure and gearing at prudent levels.

Property update

The property portfolio increased by $14.8 million (3.8%) since June 2015 following the independent and directors valuations of the property portfolio. This increase reflects investors continued appetite for yield but also the markets greater understanding of healthcare real estate and its associated re-rating. Properties independently valued, saw an increase of 13.5% ($12.0 million) in the period while internally valued properties recorded a more modest increase of 1.1% ($2.8 million) due to the shorter timeframe since the last independent valuation that predominantly occurred at 30 June 2015.

Key portfolio metrics for the period include:

- Like-for-like rental growth of 2.1%;
- Continued high occupancy of 98%;
- A weighted average lease term to expiry (WALTE) of 12.3 years;
- 100% of the expiring tenancies leased via renewals;
- An FY17 expiry at ARCBS was surrendered early with the incoming tenant RSL Care leasing the space with no downtime; and
- An 8.5% increase in the Fund's property values (on a like-for-like basis) reflecting a weighted average capitalisation rate of 7.61% (compared to 7.82% as at 30 June 2015).

Announcements, Transactions and Capital Management

A summary of the key announcements and transactions during the year is set out as follows:

- In September, GHC contracted to acquire 6 ground floor retail suites and 30 car parks at Waratah Private Hospital for $5 million plus costs. Secured by a 20 year net lease with the hospital operator, the retail suites will be utilised for expansion of hospital outpatient services. The initial rent represents a circa 7% yield on the acquisition price. Settlement occurred on 15 January 2016.

- In December, the $114 million Casey Stage 2 project reached financial close. In partnership with Australia's largest not-for-profit private hospital operator, St John of God Health Care ("SJGHC"), a 18,000 sqm state of the art private hospital will be built, located adjacent to the recently completed and 100% owned Casey Specialist Medical Centre.

  On completion of the private hospital, the Fund will own a 50% interest in the Stage 2 base building and 90% of the car park (total project cost of circa $114 million with GHC's share being approximately $45 million), with the balance of the project and the building fit out funded and owned by SJGHC.

  Work on site has commenced, with completion forecast in the second half of FY18.

- In December, GHC announced that its joint venture entity had commenced the $45.5 million Frankston Private expansion project. This project, in which GHC has a 65% interest (representing an additional investment of approximately $29 million), will see the addition of 60 inpatient beds, two additional operating theatres and 89 underground carparks. With completion forecast in the first half of FY18, the project represents a significant expansion to the Healthscope operated Frankston Private Hospital.

- The planning permit application for the Epworth Freemasons Clarendon Street expansion projects was lodged with the Melbourne City Council in December. The application is for a 10 level, 6,805 sqm building to be known as the Grey Street Centre and a 309 bay below ground car park on the Albert Street side of the site.

  The estimated total project cost is $62 million and is to be in a 50/50 Joint Venture with Epworth Foundation. The project is conditional on town planning approval (expected to take up to 12 months) and project finance.

- In December the Fund settled the $10.7 million (plus costs including deferred acquisition costs, totalling $2.2 million) acquisition of the freehold interest at Epworth Freemasons Victoria Parade that was entered into on the Fund's establishment in 2006.

Outlook

The guidance previously provided for FY16 is upgraded and reaffirmed respectively as follows:

- Forecast underlying net operating income per unit is upgraded from 9.90 cents to 10.10 cents
- Forecast distributions per unit of 8.84 cents, a 3% increase on FY15's 8.58 cents, is reaffirmed

"The Fund continues to be well positioned with a key focus for second half of FY16 being the Fund's organic growth pipeline including progression of the Casey Stage 2 and Frankston Private projects 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.

Yours sincerely

John Freemantle
Company Secretary

For further information, please contact

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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 17 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 $439 million with investments located in Victoria, New South Wales and Queensland.

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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.

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.