

Market Release

10 May 2019

Vital announces third quarter results, an update on the Healthscope opportunity and current projects

NorthWest Healthcare Properties Management Limited (NWM), the manager of Vital Healthcare Property Trust (Vital), today released its third quarter report for the nine months ending 31 March 2019. It also confirmed a third quarter cash distribution of 2.1875 cents per unit will be paid to unitholders on 20 June 2019, an increase of 2.9% over the prior year period.

Healthscope transaction update

After due consideration, Vital has declined to participate in the Healthscope real estate opportunity with NorthWest Healthscope Properties REIT ("NWH REIT").

In early 2018, Vital and NWH REIT agreed to jointly pursue the acquisition of the Healthscope real estate opportunity. A derivative position on Healthscope shares was entered into to retain influence over the real estate outcome in a complicated takeover process.

The sale of the Healthscope real estate portfolio represented an excellent strategic opportunity for Vital to jointly participate in the acquisition of a portfolio of high quality Australian hospitals backed by a leading operator.

In accordance with Vital and NWH REIT's joint investment policy, Vital has the right to acquire a 50% interest in any property acquisitions NWH REIT pursues in Australia and New Zealand. NWH REIT formally signed up to acquire 50% of the Healthscope real estate portfolio in late January 2019 and offered 50% of this portfolio, on exactly the same terms, to Vital. However, when considering all current factors, it was decided that participation in the Healthscope opportunity by Vital should be declined.

Independent Directors Andrew Evans and Graham Stuart said: "Consideration of this rare opportunity has been a very thorough and detailed process for the Board and Vital. Unfortunately, despite the Board's collective view earlier in calendar 2018 that the Healthscope real estate opportunity was in line with Vital's strategy, we were unable to see that the opportunity met all the overall investment objectives for the Trust."

"Further, management and directors have also listened carefully to a range of investor feedback over the last few weeks and it has factored heavily into our conclusion. Turning away from a quality and scale portfolio opportunity can be a difficult decision but, for Vital in this instance, we are satisfied it is the right decision at this time in light of the broadest range of applicable considerations."

After today's decision to not participate it has been agreed with NWH REIT that in the circumstance where the Healthscope real estate opportunity closes as anticipated, fees and third party due diligence costs relating to the Healthscope real estate opportunity will not be borne by Vital. Vital will still participate in 50% of NWH REIT's derivative position in Healthscope shares including the payment of associated fees. These arrangements along with the related financing will be settled in accordance with their terms following the completion of the transaction.

As at 31 December 2018, Vital had recorded costs capitalised on its balance sheet of \$9.0m and a net expense through the income statement of \$3.6m. It is forecast that Vital's financial statements to 30 June 2019 will show that the net expense from 31 December 2018 will improve by approximately \$1m and there will be no costs remaining on the balance sheet.¹

¹ Assumes Healthscope shareholders vote to approve the Scheme of Arrangement in June 2019.

A summary of the foregoing is set out below:

	Unaudited 9 months Mar-19 \$000s
Dividend income received	(7,363)
Expenses	18,259
Strategic transaction costs	10,896
<i>(Deduct) / Add:</i>	
Interest income on related party loan	(1,828)
FV (gain)/loss on strategic transaction derivatives	(7,256)
Realised and unrealised strategic transaction costs	1,812

Leadership change

NWM advises that David Carr has today given notice of his resignation as the Chief Executive Officer of the Manager of Vital. The Board would like to thank Mr Carr for 13 years of dedicated service and market outperformance. Mr Carr's last day will be 15 June 2019.

Miles Wentworth has been appointed as Interim Manager with immediate effect and will be responsible for the Trust's day to day operations.

With 23 years of experience in the New Zealand and Australian healthcare property sector, Mr Wentworth is ideally suited to ensure a smooth transition and continuity of Vital's operations. He is a New Zealand national, and has an extensive executive management career.

Mr Wentworth held the positions of Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of Vital over a 10 year period, when it was known as the NZX-listed Calan Healthcare Properties Trust. In 2006, Mr Wentworth relocated to Melbourne, where he was a founding partner and CEO of the ASX-listed ING Real Estate Healthcare Fund, subsequently renamed Generation Healthcare REIT ("GHC"). In 2018, following 12 years as CEO of GHC, Mr Wentworth became a Director and Advisor of NorthWest. Mr Wentworth and Mr Carr will work together on a seamless transition of duties over the coming weeks.

Chairman Bernard Crotty said "After 13 years of service, David has decided that he would like to take a well-earned break and to look at new opportunities. On behalf of all Directors and the NorthWest management team, I extend our sincere thanks to David for his substantial contribution to Vital's growth and performance.

"I am delighted to be handing interim responsibility for Vital's day to day operations to someone with such extensive experience in healthcare property that Miles has."

"Miles will have excellent support from the NorthWest management team and our unitholders can be comfortable that there will be no interruption to management's focus." Mr Crotty said.

Fees and governance update

As previously announced, on 1 April 2019 the Independent Directors of NWM reached an agreement with NWH REIT on a new governance and fees structure for Vital.

After discussion with the Supervisor, the proposed changes will be put to a meeting of all unitholders to ensure investors have a say in these enhancements, both financially in relation to lower fees as well as changes to the Trust Deed on governance matters.

The meeting will be held before the end of October 2019. If approved, the fee reductions will apply from 1 April 2019, excluding the inventive fee which will take affect from 1 July 2019.

NWM and its associates (including NWH REIT) confirmed they will not vote on the resolutions to be put to unitholders.

Operational update

The Trust reported a strong occupancy of 99.3%, consistent with the previous quarter. The portfolio's weighted average lease expiry ("WALE") decreased slightly to 17.9 years (from 18.0 years at 31 December 2018) on the natural roll down of the portfolio's lease term, partially offset by 400 sq. metres of lease renewals at Ekeru Medical Centre, Ormiston Hospital and Ascot Hospital.

The portfolio generated solid same property net operating income ("NOI") growth of 2.2% for the nine months ended 31 March 2019 on a same currency basis. This reflects organic rental growth of 1.9% owing to structured reviews and assisted by no increase in property expenses versus the prior year period. On an unadjusted currency basis, same property NOI growth was 0.7% in the nine months ending 31 March 2019 due to a stronger New Zealand dollar versus the prior year period.

Project update

The Trust currently has NZ\$240m of projects in various stages of development expected to produce an average 6.25% yield on cost at completion. These projects are forecast for completion between 2020 and 2023, with NZ\$214.4m of costs to complete of which approximately NZ\$60m is to be spent over the next 18 months.

In January 2019, completion was achieved at Bowen Private Hospital in Wellington, where a radiotherapy suite, linear accelerator bunkers, and consulting suites were developed for a total cost of NZ\$4.0m. Rentalisation of this project will contribute an additional NZ\$270k of rental income based on a 6.8% yield on cost.

Additionally, practical completion was achieved at Maitland in January 2019, expanding the facility to include a new intensive care unit and 7 chair chemotherapy unit for an expected total cost of A\$3.1m upon occupancy. Rentalisation of this project will contribute an additional ~A\$215k of rental income based a 7.0% yield on cost.

We expect to record a combined NZ\$1.5m gain on these projects at the year-end reflecting an approximate 125bps rentalisation spread.

The finalisation of a construction contract at Epworth Eastern with the preferred builder is expected to be completed in the next month. Subject to receiving the final permit, construction is expected to commence in the fourth quarter of FY2019 with the project forecast to have an approximately 30 month build time.

Project	Work being undertaken	Budgeted cost (A\$m)	Spend to date (A\$m)	Forecast completion date
Maitland ICU (NSW)	New ICU and 7 chair day chemotherapy unit	3.1	2.3	Practically complete
Epworth Eastern (VIC)	New 14 storey tower incorporating 60 beds	126.2	10.4	Late-2021
Total Australian Projects		129.3	12.7	
		(NZ\$m)	(NZ\$m)	
Wakefield (Wgtn)	Staged demolition and redevelopment of entire hospital.	88.0	6.1	Staged 20-23
Royston (HB)	Expansion including two new theatres, recovery and admission areas and consulting space.	13.0	2.1	Mid-20
Bowen (Wgtn)	New build to create radiotherapy suite including two bunkers for linear accelerators, and associated consulting space.	4.0	3.8	Complete
Total New Zealand Projects		105.0	12.0	
Total Projects in \$NZD*		239.9	25.2	

* A\$ converted at 31 March 2019 spot rate 0.9587

- 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 NorthWest Healthcare Properties Management Limited.

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