Vital HEALTHCARE PROPERTY TRUST

Managed by NorthWest Healthcare Properties Management Limited

MARKET RELEASE

25 February 2021

1H FY21 results release[1]

NorthWest Healthcare Properties Management Limited (**the Manager**), the manager of Vital Healthcare Property Trust (**Vital**), released Vital's results for the six months ended 31 December 2020 (**the Half Year**) today.

Vital's defensive portfolio helped it record a 19.8% total return for the 12 months ended 31 December 2020, outperforming the S&P/NZX REIT Index by 15.4% and the broader S&P/NZX 50 index by 5.9%.

This outperformance, despite the COVID-19 pandemic, highlights Vital's defensive characteristics including its market-leading 19.0 year weighted average lease expiry term (**WALE**) and earnings growth. The underlying strength of our tenants' income helped us achieve over 99% rent collection for the Half Year in turn enabling us to increase our distribution guidance for the second half of FY21 to 9.00 cpu (annualised) from prior guidance of 8.75 cpu.

Highlights for the Half Year

- Appointment of Independent Chair, Graham Stuart, to lead a majority Independent Board.
- Sale of three regional Australian hospitals for $100.4m; a 14.7% premium to their book value with the proceeds used to acquire Grace Hospital in Tauranga, New Zealand.
- Balance sheet gearing reduced to 32.4%.
- 20.2% increase in adjusted funds from operations (**AFFO**) per unit from 4.88 cents per unit (**cpu**) in the first half of FY20 to 5.87 cpu.
- Over 99% of rent collected despite COVID-19.
- 7.1% increase in net tangible assets (**NTA**) per unit from $2.38 to $2.55.
- $66m of new developments commenced in addition to the $290m previously underway.

Vital's Fund Manager, Aaron Hockly, said:

"During the Half Year the Manager continued to execute on our announced strategy:

(1) improving the portfolio across all key metrics including over $200m of capital transactions (three sales and two acquisitions);
(2) continuing to expand our development pipeline to ensure 10-15% of the portfolio remains under development over the medium-term; and
(3) raising over $170m in new equity to reduce balance sheet gearing and provide capacity for future value enhancing acquisitions and developments."

[1] All values shown in NZ$

Earnings, expenses and distributions

Net property income increased by 7.5%[2] over the Half Year from $49.9m to $54.2m compared to the prior corresponding period. This increase was primarily due to acquisitions ($2.2m of additional revenue), development income ($2.1m) and rental growth ($0.5m). Same property net property income compared to the prior corresponding period increased by 1.5%[2] due to fixed and indexed rent reviews.

Expenses declined by 1.4% from $26.3m to $25.9m from the prior corresponding period.

Increased net property income and reduced expenses resulted in AFFO increasing by 27.9% from the prior corresponding period to $28.1m for the Half Year. This equates to a 20.2% increase per unit; 4.88 cpu to 5.87 cpu.

Distributions for the Half Year were consistent with the prior corresponding period at 4.375 cpu (2.1875 cpu per quarter) on a conservative pay-ratio of 75%. The Board is pleased to provide updated guidance. Distributions for the next two quarters are expected to increase to 2.25 cpu per quarter or 9.0 cpu annualised. This equates to a 1.4% increase in distributions per unit over FY21 from FY20. The payout ratio for the second half of this financial year is expected to remain conservative at around 80%.

Capital Management

A placement and follow-on UPP was undertaken in October and November 2020 raising $157.5m primarily from existing unitholders. Equity was issued at $2.80 per unit, a 17.5% premium to NTA per unit at 30 June 2020.

At 31 December 2020, balance sheet gearing was 32.4%[3], Vital had debt headroom in its existing facilities of A$284.2m and the all-in weighted cost of debt was 3.6%[4].

In early 2020, a process of reviewing and updating Vital's lending documents was commenced to support the extension and diversification of Vital's debt. Post-balance date, terms were agreed with three new lenders to join Vital's banking syndicate and extend Vital's average debt duration from 1.3 years to 2.9 years[5]. Later this calendar year, the Manager will look to diversify Vital's sources of debt.

Portfolio overview

Vital owns a high-quality portfolio of 42 healthcare investment properties, diversified across all mainland Australian States and New Zealand. The portfolio comprises 25 private hospitals (representing 83% of the portfolio value), nine out-patient facilities (11%) and eight aged care facilities (6%). At 19.0 years, Vital's WALE remains the longest of any NZX or ASX listed REIT providing a high level of income security for unitholders. Our tenants are some of the largest healthcare providers in New Zealand and Australia.

Leasing

Over 25,000 square metres of new or extended leasing was undertaken across Vital 's portfolio during the Half Year. Leasing helped to maintain a high occupancy of 99.1% (30 June 2020: 99.4%), extend the WALE to 19.0 years (30 June 2020: 18.1 years) and contribute to the earnings growth noted above. Over 99% of rent was collected for the Half Year.

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[2] Excluding foreign exchange impacts

[3] This is the debt / assets ratio calculated in accordance with Vital's Trust Deed.

[4] Drawn debt only. Excludes line fees on undrawn debt.

[5] Both at 31 December 2020 (pro -forma).

Divestments

During the Half Year, three regional Australian hospitals were sold for $100.4m being:

1. Mayo Private Hospital, Taree, New South Wales;
2. Dubbo Private Hospital, Dubbo, New South Wales; and
3. North West Private Hospital, Burnie, Tasmania.

Sales proceeds were used to acquire Grace Hospital (refer below) and helped achieve the following over the Half Year consistent with Vital's 5-year portfolio strategy:

1. Reduction of single-tenant exposure from 48% to 41%.
2. Increase in metropolitan assets from 71.3% of the portfolio to 76.4%.
3. Increase in average property value from $47.4m to $53.5m.
4. Reduction of average building age from 12.1 years to 11.9 years.
5. Increased WALE from 18.1 years to 19.0 years.

Acquisitions

Vital has acquired three income producing investment properties:

1. Grace Hospital in Tauranga, New Zealand for $95.0m (plus transaction costs). This is a 51-bed, 11-theatre facility purpose-built in 2007 and expanded in 2020. It is Tauranga's only private in-patient hospital and is located on a ~4-hectare site providing significant future expansion opportunities. The property is fully leased to a joint venture between New Zealand's largest hospital operator, Southern Cross Hospitals, and New Zealand's third largest private hospital operator, Evolution Healthcare for 30 years providing a rental yield of 5.25%[6]. Vital will look to support Grace Hospital's $50m Master Plan to be built over the next 5 years[7].
2. 50% of Elizabeth Vale Shopping Centre in Adelaide, South Australia for A$7.6m (plus transaction costs). Vital already owned the other 50% and is developing this site into a staged, purpose-built health hub to be known as "Playford Health Hub". Refer to the developments section below for more details.
3. A 5,330 square metre strategic development site at 17-23 Nelson Rd, Box Hill, Melbourne, Victoria, approximately 14kms east of Melbourne's CBD for A$29m (plus transaction costs). Settlement occurred post-balance date and the property is leased to Epworth Foundation providing an income yield of 2.9%. The property is expected to be developed on a staged basis over the medium term with a potential gross floor area in excess of 42,000 square metres. Refer to the development section below for more details.

The acquisitions are expected to be accretive to Vital's earnings.

Developments

Developments are a key component of Vital's strategy to continue to deliver earnings growth and improve the quality of the portfolio.

At 31 December 2020, Vital's committed development pipeline had grown to $356.5m across nine projects (six private hospitals and two out-patient / mixed facilities) of which $224.7m was left to complete. This includes the following developments announced during the Half Year:

[6] Based on year 2 stabilised / market rent.
[7] Any future funding from Vital is subject to business case support among other conditions.

1. A$22.6m expansion and upgrade of Belmont Private Hospital, a 150-bed specialist mental health facility approximately 12kms from Brisbane's CBD, leased to Healthe Care (Australia's third largest private hospital operator) for 25 years. The development will provide additional in-patient capacity (net increase of 35 beds), 13 additional consulting suites and 70 new car parks as well as updating and modernising some of the older wards. On development completion, Belmont Private Hospital is anticipated to be valued at A$135m.
2. A$18.6m expansion of Abbotsford Private Hospital, a 30-bed specialist mental health and addiction treatment facility approximately 3kms from Perth's CBD, leased to Healthe Care for 21 years. The development will provide 47 additional in-patient beds as well as additional therapy rooms, administration facilities and car parking. On development completion, Abbotsford Private Hospital is anticipated to be valued at A$51m.
3. A$20.7m stage one development of a new health precinct in northern Adelaide to be known as "Playford Health Hub". Playford Health Hub is strategically located opposite one of South Australia's largest public hospitals, Lyell McEwin. This first stage is expected to comprise a mixture of consulting suites, parking for the public health department and ancillary retail. Future stages are expected to comprise a major out-patient facility and private hospital.

These new developments of Vital's existing properties are primarily driven by tenant demand and are expected to return a weighted average yield on cost of ~6.3%[8].

In addition, Vital's potential development opportunities increased to $560m. These are opportunities which are being actively considered but are not yet committed or approved, with approximately $350m arising from Vital's acquisition of 17-23 Nelson Rd, Box Hill, Melbourne, Victoria. This property is adjacent to Epworth Eastern Hospital (Vital's largest asset) and can support a gross floor area of over 42,000 square metres. It has been strategically acquired to support the ongoing expansion of Epworth Eastern as well as potential ancillary uses including aged care and life sciences.

Property values

Consistent with Vital's Trust Deed, approximately 40% of Vital's portfolio (by number of properties) was independently valued at 31 December 2020 with the balance valued on a desktop only basis. Valuation gains totaling $60.9m were recorded over the Half Year with Vital's portfolio being valued at $2.25 billion at 31 December 2020 (30 June 2020: $2.09 billion). This equated to a pre-tax $0.17 gain in NTA per unit.

Vital's weighted average capitalisation rate (WACR) firmed by 20 basis points to 5.33% (5.35% NZ portfolio; 5.32% Australia portfolio).

COVID-19

The COVID-19 pandemic has had, and continues to have, a significant impact on people, communities and economies around the world. Although initial restrictions on the movement of people, access to premises and elective surgeries had a significant impact on many of Vital's tenants in the early part of 2020, this had largely abated by 31 December. In particular, elective surgeries in Australia recommenced in June and by early July hospitals were operating at close to full capacity.

At 30 June 2020, valuers were generally cautious given the then highly uncertain nature of the pandemic including the economic consequences. By 31 December 2020, this caution was generally replaced by expectations of falling capitalisation rates for healthcare assets. This has helped Vital record the significant valuation gains noted above.

[8] Before management fees

Despite COVID-19, over 99% of rent due for the Half Year was collected further demonstrating the resilience of healthcare operators and healthcare assets.

Outlook

Healthcare property remains a defensive asset class underpinned by growing demand, high levels of government support in Australia and New Zealand and growing institutional interest. Notwithstanding the challenging health and economic environment due to COVID-19, Vital remains well-positioned to continue to grow earnings, achieve our revised distribution guidance and continue to improve Vital's high-quality portfolio.

Conference call and webcast

A conference call is scheduled for 11:30am (NZDT) today. Participants are encouraged to pre-register for the event to avoid delays. Presentation slides and audio can be viewed by copying the following URL into your internet browser: https://edge.media-server.com/mmc/go/vital-21-hy/

Participants will be required to input their name, email address and company name to register for the webcast.

A copy of the webcast will be available on Vital's website later in the day at: www.vhpt.co.nz

– ENDS –

ENQUIRIES

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About Vital (NZX code VHP):

Vital Healthcare Property Trust is an NZX-listed fund that invests in high-quality healthcare properties in New Zealand and Australia including private hospitals (~83% of portfolio value), out-patient facilities (~11%) and aged care (~6%).

Vital is the only specialist listed landlord of healthcare property in Australasia and currently has a portfolio valued at over $2.2 billion.

Vital is managed by NorthWest Healthcare Properties Management Limited, a subsidiary of Toronto Stock Exchange listed NorthWest Healthcare Properties REIT, a global owner and manager of healthcare property.

For more information, visit our website: www.vhpt.co.nz

All references to $ are to New Zealand dollars unless otherwise indicated.

This announcement may contain forward-looking statements. Forward-looking statements can include words such as "expect", "intend", "plan", "believe", "continue" or similar words in connection with discussions of future operating or financial performance or conditions. The forward-looking statements are based on management's and directors' current expectations and assumptions regarding the Trust's business, assets and performance and other future conditions, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and to any changes in circumstances. The Trust's actual results may vary materially from those expressed or implied in the forward-looking statements. The Manager, the Trust, and its or their directors, employees and/or shareholders have no liability whatsoever to any person for any loss arising from this presentation or any information supplied in connection with it. The Manager and the Trust are under no obligation to update this announcement or the information contained in it after it has been released. Past performance is no indication of future performance.