Vital HEALTHCARE PROPERTY TRUST
Managed by Northwest

15 February 2024

## Healthcare property continues to provide underlying income growth

Northwest Healthcare Properties Management Limited (**Northwest**), as manager of Vital Healthcare Property Trust (**Vital**), has today released its results for the six months ended 31 December 2023 (**HY24**).

Following strong earnings growth in FY23, Vital has continued to deliver solid results in the first half of FY24, with net property income (**NPI**) up 4.1% (on a same property, constant currency basis).

Fund Manager, Aaron Hockly, said the encouraging results can be attributed to Vital executing on its strategy, which was reaffirmed by its Board in December 2023.

"Our commitment to enhancing Vital's portfolio has seen us continue our non-core asset divestment programme. Over NZ$220m has now been realised and initially applied to debt repayment. Ultimately these proceeds will be reinvested to fund Vital's development pipeline, improving the quality, resilience and cash returns of the portfolio as Vital focuses on core and emerging healthcare precincts. With the majority of annual rent increases linked to CPI, weighted to the second half of FY24, Vital continues to generate strong and sustainable income growth to mitigate some of the impact of higher interest rates," said Hockly.

Vital's market-leading portfolio of high-quality, healthcare assets across Australia and New Zealand is now valued at NZ$3.2 billion with ~98.2% occupancy and a weighted average lease term (**WALE**) of 19.2 years to leading healthcare operators in each country. Vital is also an acknowledged sector leader in ESG.

"While our AFFO per unit growth was below our target over HY24, we remain committed to achieving 2%-3% per unit growth in AFFO and distributions per annum over the medium term. We have several strategies to return to growth in future periods. Our recent increase in interest rate hedging to 78% at 31 December 2023, in particular, is expected to reduce the impact of movements in interest rates.

"Vital's committed and potential development pipeline coupled with the existing strong demand for healthcare property and tailwinds from population growth and an ageing population, will support our return to growth in AFFO per unit," continued Hockly.

### HY24 highlights include:

1. Vital was acknowledged as a Sector Leader (the highest possible achievement) by GRESB for ESG in healthcare for listed entities globally across performance, management, and developments.

2. A 4.1% increase in NPI on a same-property, constant currency basis primarily reflecting the impact of development income and rent reviews. After allowing for the impact of divestments, NPI reduces to a still healthy 1.8% increase.

3. NZ$164m[1] of non-core assets were sold during HY24 taking the total calendar year non-core asset sales to NZ$222.1m with a further ~NZ$92m in due diligence for sale. Sales have been executed at a ~8% discount to book values highlighting both the accuracy of these valuations and the demand for healthcare assets. Proceeds have been used to repay debt and will ultimately fund Vital's development pipeline, materially improving the resilience of Vital's property portfolio. Over the five years to 31 December 2023, Vital has divested NZ$339m of non-core assets.

4. Distributions were maintained at 4.875 cpu from the prior corresponding period whilst also maintaining a conservative payout ratio of <90%. FY24 distribution guidance remains at least 9.75 cents per unit. The distribution reinvestment plan remains active with ~20% of Unit Holders participating. However, the 1% discount has been removed for future distributions.

5. Seven percent of Vital's total property portfolio (by net lettable area) was leased or renewed during HY24, helping to maintain Vital's long WALE of 19.2 years and 98.2% occupancy.

6. Nine developments are currently underway with NZ$212.7m spend remaining of which ~NZ$170m is expected to be spent over the next 12 months. These developments include Wakefield Hospital in Wellington and Ormiston Hospital in Auckland, which are nearing completion reducing the capital required in future periods. With these developments nearing completion, increasing consideration is being given to Vital's future development pipeline. A number of potential developments across Australia and New Zealand have been made "shovel-ready" (typically design and resource consent), enabling quick conversion to a committed development when market conditions are supportive and appropriate tenant pre-commitments are in place.

7. At 31 December 2023, Vital had balance sheet gearing of 38.3% with no debt expiring until March 2025 and A$166m of debt headroom to fund Vital's development pipeline. This is above the ~NZ$170m expected to be spent over the next 12 months on developments as noted above. Additional development funding is expected to come from non-core asset sales, capital partnering and / or other strategic initiatives. To support capital partnering initiatives, the Board has today sent to Unit Holders a notice proposing to amend Vital's Statement of Investment Policy and Objectives (SIPO). In particular, the proposed amended SIPO would make it easier for Vital to earn management fees as part of capital partnering arrangements.

8. Interest rate hedging increased from 67.2% at 31 December 2022 to 78.0% at 31 December 2023. Whilst this remains slightly below where Vital would like it to be, the increase removes future volatility.

"We will continue our process of upgrading and enhancing our property portfolio, in-line with announcements made over the 2023 calendar year. Developments in particular, are an integral part of our strategy to enhance Unit Holder returns and improve Vital's portfolio. All our developments are substantially on time and on budget other than some minor adjustments announced today," said Hockly.

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[1] Includes assets held for sale at 30 June 2023.

## Sustainability

Vital was proud to be acknowledged in late 2023 as GRESB sector leader for ESG in healthcare for listed entities globally across performance, management, and developments.

Vital's commitment remains that all new developments target a minimum 5 Star Green Star rating.

Hockly added: "In line with New Zealand legislation, we will submit a Climate Related Disclosure prior to October this year, including information covering Governance, Strategy, Risk Management, Metrics and Targets. We are currently working with Toitu Envirocare to verify our 2022 baseline emissions data and are committed to a long-term emissions target of net zero by 2050."

## Outlook

In December 2023, Vital's Board reaffirmed Vital's strategy reflecting the Board and Management's conviction in healthcare property supported by growing institutional demand for the asset class and the stability of the cashflows these assets provide.

Healthcare property remains a defensive asset class, underpinned by a high level of government support and non-discretionary spending. Vital is the only specialist healthcare landlord listed on the NZX and has the largest team of dedicated healthcare property specialists in Australasia leaving it in a unique position to capitalise on these tailwinds.

Hockly concluded: "Whilst we have delivered on most of our strategic goals, our primary focus remains delivering a growing income stream for our Unit Holders whilst also continuing to improve the property portfolio."

– ENDS –

## For further information, please contact:

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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 (~81%* of portfolio value), ambulatory care facilities (~17%* of portfolio value) and aged care (~2%* of portfolio value).

Vital is the leading specialist listed landlord of healthcare property in Australasia.

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 figures are indicative, as at 31 December 2023

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