Vital HEALTHCARE PROPERTY TRUST
Managed by Northwest

FY24 Third Quarter Update

1 JANUARY 2024 - 31 MARCH 2024

Macarthur Health Precinct

SECTOR LEADER 2023

5 STAR ESG RATING

1ST PLACE 1ST PLACE LISTED HEALTHCARE (GLOBALLY) - PERFORMANCE AND DEVELOPMENT

SILVER AWARD 2024 AUSTRALASIAN REPORTING AWARDS

Dear Unit Holders

In addition to Vital's year-to-date financials, this quarterly update provides details on two matters Unit Holders have queried: (1) how the healthcare sector is faring and (2) the relationship between property valuations and interest rates.

Healthcare Sector Update

We are currently seeing differences in healthcare operator performance across different geographies, specialties and between individual operators. While temporary structural issues are present, the long-term tailwinds for healthcare property remain robust.

In New Zealand, public and private healthcare providers are struggling to keep pace with demand, increasing pressure on aging infrastructure given long-term underinvestment in the sector. The percentage of the population with private health insurance continues to trend upwards and Vital is increasingly working with operators and tenants, as well as Health NZ – Te Whatu Ora, on infrastructure solutions. The combination of these factors provides Vital with significant opportunities at both existing and to-be developed facilities in New Zealand.

In Australia, private healthcare procedures are growing but below their long-term growth rate due to a mixture of workforce shortages and behavioural changes, reduced GP and specialist presentations and cost pressures on households. Insurance payments for private healthcare have also not kept pace with either increases in private health insurance premiums nor rising costs for healthcare operators. These twin impacts of lower than anticipated demand and income rising slower than costs have put significant pressure on private hospital operators as a whole. However, some operators have been able to minimise these impacts and adjust to market conditions, particularly as payments for procedures are based on individual facilities. The vast majority of Vital's operators remain profitable and continue to grow.

For Vital, the most important measure of the long-term health and viability of our tenants is rent cover. We are seeking to ensure that at each facility Vital owns, the profit or EBITDAR[1] is around twice the rent for the facility providing a buffer for unexpected circumstances or temporary structural issues like Australia is experiencing at present. Pleasingly, Vital's rent approximates this rent cover range so does not represent a current concern.

We also remain confident of the long-term tailwinds for healthcare property across Australia and New Zealand due to:

1. Healthcare spending being nondiscretionary or high priority.
2. Strong demand for healthcare property versus other sectors due to key activities like surgery and diagnostics only able to be undertaken in-person on-site. This physical presence demand driver is a differentiating factor compared to the impact of working from home on the office property sector and on-line shopping impacting the retail property sector as an example.
3. Growing demand due to growing ageing populations, increasing life expectancy and increased healthcare offerings due to technological advances.

[1] Earning Before Interest, Tax, Depreciation, Amortisation and Rent

Vital owns a high-quality portfolio of hospital and other healthcare properties valued at ~NZ$3.3 billion across New Zealand and Australia providing Unit Holders with a stable and growing income stream via distributions as well as opportunities for capital appreciation via unit price growth.

Q3 DISTRIBUTION

Payment date 20 June 2024
Ex date 5 June 2024

2.4375cpu CASH DISTRIBUTION

9.75 cpu ANNUAL DISTRIBUTION

DRP active

0.6857 cpu IMPUTATION CREDITS

The Distribution Reinvestment Plan (DRP) provides Vital with additional retained earnings to fund developments and provides Unit Holders with a low cost way of increasing their holding in Vital.

Q3 Distribution

PAYMENT DATE
20 JUNE 2024

Ex date
5 June 2024

Interest rates and property values

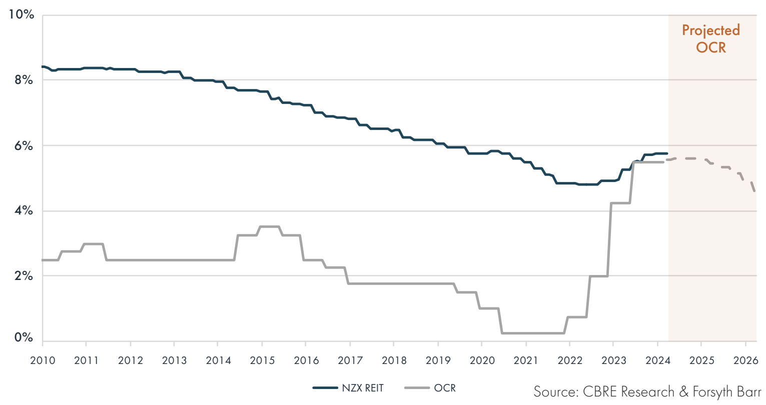
There are three basic ways to value real property:

1. valuing expected cashflows;
2. comparable market evidence/ transactions; and
3. "sum of the parts" or replacement cost.

The first method takes projected cashflows (in Vital's case this is the rent received from an asset less the cost of owning that asset) over 10 years, discounted to reflect the time value of money or a present dollar value. All other things being equal, if interest rates increase, a dollar of income in the future is worth less than if interest rates had been held constant or declined so the net present value of projected cashflows also declines.

The second method considers the market environment primarily based on recent sales of similar assets. For example, when you buy a house, a rise in interest rates impacts your capacity (i.e. borrowing ability) and / or willingness (i.e. a house purchase compared to other uses for your money including other investments) to pay a purchase price. Again, all other things being equal, as interest rates rise, the prices buyers are willing / able to pay decreases.

NZX REIT WEIGHTED CAP RATE VS OCR[1] (2010 - CURRENT)



Source: CBRE Research & Forsyth Barr

To illustrate the relationship between interest rates and property values, the chart above shows the weighted average capitalisation rates[2] of the seven largest NZX-listed property groups since 2010 compared with the OCR over the same period. You can see that as the OCR increases the capitalisation rates also increase (albeit not smoothly and with some lags). As capitalisation rates increase, property values decrease, reflecting that if rent remains fixed but return requirements increase (often due to rising interest rates), property values need to fall.

Interest rate movements don't have a significant direct impact on the third method[3] and this is of more relevance for insurance or replacement purposes than for showing current market value.

All of these valuation methods are at a point in time and fluctuate continually. They are also not the sole determinants of valuation outcomes. For Vital, annual rental growth under leases, underlying demand for healthcare property and development margins are also key drivers of valuation growth and it is these factors which give us most comfort for ongoing healthy returns for Vital.[4]

Aaron Hockly
Fund Manager
9 May 2024

[1] Overnight cash rate set by the Reserve Bank of New Zealand.
[2] A capitalisation rate indicates the percentage return (rent) for a given property value.
[3] There are indirect impacts which are beyond the simple analysis presented here.
[4] With few transactions being completed in the market, there is currently little comparable market evidence. For this reason the Directors have placed a heavier reliance on the cashflow valuation and capitalisation rates in arriving at their portfolio valuation as at 31 March 2024. The 30 June financial year end valuations will have greater input from independent valuers who will be valuing 100% of the portfolio (by value) 67% of which (also by value) will be fullsome and the balance by way of desktop reviews.

Portfolio Overview*

18.2 years
WEIGHTED AVERAGE LEASE EXPIRY (WALE)

~NZ$3.3bn
PORTFOLIO VALUE

GEOGRAPHIC DIVERSITY

69%
AUSTRALIA

31%
NEW ZEALAND

PRIVATE HOSPITALS

79%
SUB-SECTOR EXPOSURE

AMBULATORY CARE

19%
SUB-SECTOR EXPOSURE

AGED CARE

2%
SUB-SECTOR EXPOSURE

*All figures calculated by value as at 31 March 2024. Figures may not sum due to rounding.

3.8%
INCREASE IN UNDERLYING EARNINGS OVER Q3

$2.72
NTA PER UNIT

Developments

Opening of Macarthur Health Precinct Stage 1

On 27 March 2024, the Minster of Health for New South Wales, the Hon. Ryan Park, officially opened the GenesisCare Integrated Cancer & Health Centre in Campelltown in Sydney's Southwest. This A$51.4m (excluding land) 4-storey comprehensive Cancer Centre has 2 radiotherapy bunkers, 11 medical oncology chairs and a wellness centre. It is the first of what is expected to be three stages of development to create a new healthcare precinct in one of Australia's fastest growing areas.

The building is targeting a 6 Star Green Star rating, the highest level of sustainability performance available.

Opening of new Community birthing facility in Christchurch

On 4 April 2024, New Zealand's Minister of Health, Dr Shane Reti MP, officially opened Kurawaka Waiapapa. This facility comprises four birthing units, 20 postnatal rooms, two whānau rooms, an education room and six assessment rooms and is ~400m from Christchurch Hospital. Approximately half of Christchurch Central's births are expected to occur here in the future taking pressure off both the existing public facilities and families who might otherwise need to travel long distances.

The name, Kurawaka Waiapapa, was gifted by Te Maire Tau, Te Ngāi Tūāhuriri hapū Ūpoko. In Te Ao Māori, Kurawaka is the place where the first human being was made by Tāne and Waipapa, meaning surface water, denotes the springs that were in the area and was the original name for the area around Hagley Park.

Vital's holding in this core healthcare precinct includes a significant parcel of undeveloped land which Vital is seeking to develop for public and / or private healthcare uses.

Sustainability

Sustainability is a core part of everything that Vital and Northwest do.

KEYSTONE TRUST

Keystone scholarship awarded

In February 2024, Vital awarded its second annual Keystone Trust scholarship to Charlotte Simpson who is working towards a conjoint Bachelor of Property and Bachelor of Commerce degree at the University of Auckland

Aaron Hockly with 2024 Keystone scholarship recipient Charlotte Simpson.

Climate Change Scenarios for the Health Sector

Together with other major public and private healthcare operators in New Zealand, Vital helped lead and fund the development of climate change scenarios.

These scenarios provide a way for organisations in the health sector to consider and challenge their strategies and future plans and will support climate related disclosures by several entities including Vital which is required to report by October 2024.

The scenarios were officially launched on 7 May 2024. More details are available here: **www.vitalhealthcareproperty.co.nz/news/**

Correction of error in half year results

In Vital's half year results released in February 2024, Vital's WALE was noted as "19.2 years" as at 31 December 2023 whereas it should have been "18.5 years". As noted elsewhere in this report, Vital's WALE as at 31 March 2024 was 18.2 years.

Q3 UPDATE

Like-for-like Financial Performance (unaudited)[1]

For the period	3 months to 31 Mar 24 $000s	3 months to 31 Mar 23 $000s	Variance $000s	Change %
Gross property income	40,313	40,598		
Property expenses	(5,618)	(7,190)		
Like-for-like net property income	34,694	33,408	1,286	3.8%
Net property income from disposals	10	3,133		
Net property income from developments	2,328	376		
Straight-line rent	(670)	(613)		
Non-recurring items	18	(58)		
Foreign exchange	(285)	-		
Net property income	36,096	36,247	(151)	-0.4%

Reduction due to non-core asset sales with the proceeds to be recycled into new developments

Financial Position (unaudited)

As at	31 Mar 24 $000s	31 Dec 23 $000s	Variance $000s	Change %
Assets				
Investment properties	3,305,119	3,216,175	87,002	2.7%
Investment properties - held for sale	-	1,942		
Other assets	58,191	51,632		
Liabilities				
Borrowings	1,327,125	1,251,415	75,710	6.0%
Other liabilities	212,297	207,917		
Debt to gross assets	39.5%	38.3%		1.2%
Total Unit Holders' funds	1,823,888	1,810,417	13,471	0.7%
Units on issue (000s)	671,326	670,511		
Net tangible assets ($/unit)	2.72	2.70	0.02	0.7%
Period end NZD/AUD exchange rate	0.9164	0.9270		

[1] On a 'constant currency' basis

Vital's total assets increased over the quarter as Vital continues to invest in new, market-leading developments across Australia and New Zealand.

YEAR-TO-DATE UPDATE

Year-to-date Financial Performance (unaudited)

For the period	9 months to 31 Mar 24 $000s	9 months to 31 Mar 23 $000s	Variance $000s	Change %
Gross property income	**125,873**	128,533		
Property expenses	**(17,379)**	(20,217)		
Net property income	**108,494**	108,316	178	0.2%
Corporate expenses	**(3,717)**	(3,044)		
Management fees (base & incentive)	**(18,567)**	(25,140)		
Net finance expenses	**(30,111)**	(26,987)		
Operating profit	**56,099**	53,145	2,954	5.6%
Non-operating gains/(losses)				
Fair value gain/(loss) on investment property	**(140,818)**	(51,401)		
Net gain/(loss) on disposal of investment property	**(2,897)**	(17)		
Fair value gain/(loss) on derivatives	**(17,224)**	(10,182)		
Realised & unrealised gain/(loss) on foreign exchange	**(239)**	1,160		
Profit/(Loss) before income tax	**(105,079)**	(7,295)	(97,784)	1340.4%
Current and deferred taxation	**5,726**	(15,386)		
Profit/(Loss) for the period attributable to Unit Holders of the Trust	**(99,353)**	(22,681)	(76,672)	338.0%
Funds from Operations (FFO)	**55,364**	55,744	-379	-0.7%
Adjusted Funds from Operations (AFFO)	**55,035**	55,414	-379	-0.7%
AFFO per unit	**8.24**	8.46	(0.21)	-2.6%
Weighted average units on issue (000s)	**667,879**	655,145	12,734	1.9%
Average NZD/AUD exchange rate	**0.9272**	0.9208		

Important note: The information in this investor update is general information only and does not contain all information necessary to make an investment decision. The financial information in this investor update has not been audited. No representation or warranty, express or implied, is made to the accuracy, adequacy or reliability of information in this update, including the financial information. This investor update contains forward looking statements which are inherently susceptible to uncertainty. Vital's actual results may vary materially from those expressed or implied in this investor update. The Manager is under no obligation to provide any update to information included in this update, including as a result of the audit process.

~NZ$171.4m remaining to be spent on Committed Developments

Development	Description of Works	Development cost[1]	Spend to date	Forecast completion date
Australia		**(A$m)**	**(A$m)**	
RDX (QLD)	9 level research and development centre of excellence and 3 level 181 bay basement car parking	133.6	47.6	Mid-25
Playford Health Hub Stage 2 (SA)	Specialist Medical Centre - Radiology, Oncology, Radiotherapy and Consulting	43.4	41.9	Mid-24
Maitland Private (NSW)	24 Mental Health beds, 12 day oncology chairs, 4 surgical beds and parking	16.0	9.7	Mid-24
Coomera Health Campus Stage 1 (QLD)	Early Works Phase 2	6.0	3.4	Mid- 24
Total Australian Developments A$		**199.0**	**102.6**	
New Zealand		**(NZ$m)**	**(NZ$m)**	
Wakefield Stage 2 (WGN)	Second stage of hospital rebuild delivering eight operating theatres, 42 beds, new Day Surgery Unit and additional expansion capacity	91.5	91.3	Staged, Early-25
Ormiston Stage 1 (AKL)	Stage 1 - three level expansion of existing hospital	38.1	33.4	Mid-24
Grace Stage 1 (BOP)	Fitout of two theatres, new endoscopy room, additional 10 beds and redevelopment of existing clinical areas	36.7	11.9	Staged, Mid-26
Endoscopy Auckland (AKL)	Four dedicated endoscopy procedure rooms, 15 car parks, reception/waiting areas	32.2	9.9	Mid-25
Boulcott (WGN)	Two new theatres, PACU expansion and conversion of double rooms to singles	24.8	10.8	Mid-25
Total New Zealand Developments		**223.3**	**157.3**	
Total Developments in $NZ[2]		**440.4**	**269.0**	
Fund-through Developments				
Macarthur Health Precinct Stage 1 (NSW)	Four storey comprehensive cancer centre with two bunkers, 10 medical oncology chairs, wellness centre and 61 on grade car parks	57.4	57.4	Completed, Feb-24
Total Australian Fund-through Developments A$		**57.4**	**57.4**	
Total Fund-through Developments in NZ$[3]		**62.6**	**62.6**	
Total Committed developments including fund-through developments in NZ$[2]		**503.0**	**331.6**	

[1] Excluding Land
[2] A$ converted at 31 March 2024 spot rate 0.9164
[3] Fund-through developments including land & operator costs