Vital
Healthcare Property Trust

Market Release

22 August 2013

Vital's strategy delivers strong year end result

Vital Healthcare Property Trust ('Vital') (NZSX: VHP), Australasia's largest listed investor[1] in medical and healthcare real estate, today announced its audited 2013 full-year result. Net profit after tax was $34.7 million (up $25.7 million) for the year ended 30 June 2013. It also confirmed that it will pay unitholders a full year cash distribution per unit of 7.9 cents for the year ended 30 June 2013. This is at the top of the guidance range given 12 months earlier of 7.7 to 7.9 cents per unit ('cpu').

Financial highlights

- Final quarter cash distribution per unit ('DPU') of 2.125 cpu, taking full year distribution to 7.9 cpu;
- Gross rental income of $59.9 million, up $9.1 million or 18 percent (FY2012: $50.7 million);
- Operating profit before interest and tax of $46.7 million, up $5.8 million or 14 percent (FY2012: $40.9 million);
- Net profit after tax of $34.7 million, up $25.7 million or 287 percent (FY2012: $9.0 million);
- Net Distributable Income[2] of $28.2 million, up $4.9 million or 21 percent (FY2012: $23.3 million);
- Loan to value ratio ('LVR') of 42.4 percent (FY2012: 42.3 percent).

Operational and performance highlights

- Total return for the 12 months to 30 June 2013 of 20.1 percent;
- $41.7 million spent on earnings accretive quality hospital redevelopments;
- Strong revaluation increase of $10.3 million, up 1.7 percent;
- 107 rent reviews completed, with average increase on rents reviewed of 1.9%;
- Continued near full occupancy of 99.5 percent;
- Weighted average lease term to expiry ('WALT') of 11.8 years;
- Appointment of Australian Managing Director to leverage opportunities and drive growth.

Chairman of the Manager, Graeme Horsley said "In what has been another busy year we have maintained the Trust's position as the market leader in healthcare real estate. The healthcare story continues to be one of rising demand on one hand, and constrained capacity on the other. The defensive characteristics of the healthcare industry remains a key factor in Vital's strong operating and financial performance and our positive long term outlook. We have the ability and capacity to continue delivering on our strategy to provide secure, stable returns to investors over the long term".

"As a result of the management team delivering another solid operational result, the Board has confirmed a final quarter cash distribution of 2.125 cpu. This increases the full year 2013 cash distribution per unit to 7.90 cents, which is at the top end of the forecast range previously guided by the Board".

David Carr, the Chief Executive of the Manager echoed Mr Horsley's comments. "The management team's execution of the Board's strategy has been key to our success. Our core portfolio of stabilised assets has been complemented with the combination of value enhancing developments and the strategic acquisition of Sportsmed-SA Hospital and Clinics in Adelaide, South Australia. Looking forward, the Trust has a strong platform to drive growth through added scale and diversification".

[1] By assets under management

[2] Net Distributable Income (NDI) is calculated as profit before tax, adjusted for non-cash items including revaluation gains/losses on investment properties and construction, foreign exchange and interest rate swaps, the Manager's incentive fee and current tax.

Chairman's commentary

Mr Horsley said "Underpinning our diversification strategy, we remain focused on continued growth through acquisition and development. We expended $41.7 million on value-add developments in the last twelve months, bringing the total over the last two years to circa $80 million. These projects have enhanced the Trust's portfolio of quality properties and importantly are averaging yields of approximately 10 percent per annum. Allocation of capital to yielding development projects will continue, driven by the capacity constraints and patient demand being experienced by many of the Trust's operators".

"I am particularly pleased with the strong year end revaluations, with each development concluded to date experiencing positive revaluations. This, coupled with the Trust's high premium to net tangible asset backing, is a clear and positive endorsement of the execution of our strategy over recent years".

"The Board retains its long term positive view on the healthcare sector. Vital has positioned itself as a highly credible organisation, partnering with market leading operators to provide healthcare real estate solutions. Working closely with our operators to create healthcare service capacity will further enhance and cement Vital's market position" said Mr Horsley.

Financial performance

The Trust had another solid year of financial performance. Rental growth of 18 percent over the 2013 financial period was driven largely by a combination of completed developments over the prior period and the acquisition of Sportsmed-SA in the first half of the financial year.

Administration expenses increased 14 percent over the year principally due to higher management fees from a larger investment portfolio. No incentive fee is payable to the Manager for the 2013 financial year. As a result, the Trust's operating profit before interest and tax increased $5.8 million or 14 percent to $46.7 million.

Vital's finance expense increased $1.4 million or 8 percent to $17.6 million for the year to 30 June 2013, primarily on higher debt levels (up $20.9 million) than the prior year. The unrealised gain in the fair value of interest rate derivatives at period end ($4.4 million) compares to an unrealised $10.1 million loss incurred in 2012. Capitalised interest expenses were $0.5 million, down 39 percent on the prior year as development capital expenditure slowed over the second half of the financial year.

Vital's annual portfolio revaluation resulted in an increase of $10.3 million for the year ended 30 June 2013. This audited revaluation gain was slightly higher than the preliminary revaluation announced on 26 June of $9.9 million. The overall gain was made up of $3.5 million for the New Zealand portfolio and $6.8 million for the Australian segment. Of the Trust's 24 assets, 16 had gains, 6 declined and 2 were unchanged.

The primary drivers for the positive gains include the firming of the weighted average market capitalisation rate by approximately 15 basis points to 9.1 percent, structured rent review growth and continued high occupancy levels. Concluding a number of value add development projects in Australia also resulted in enhanced operational performance at those properties.

The revaluation gain is approximately 1.7 percent when measured against the pre-revaluation book value as at 30 June 2013. The overall value of the Trust's property portfolio following acquisition, disposal, development additions and the revaluation is now $618.7 million, up 9.1 percent on 2012.

Vital's net tangible asset value (NTA) per unit at 30 June 2013 was $1.01, up from $0.98 a year earlier. The increase was driven by a combination of factors including portfolio revaluation gains and marked-to-market adjustments on derivatives.

Vital's current tax expense increased to $5.4 million from $2.1 million in 2012 reflective of the higher income generated. Vital continues to maintain the Managed Investment Trust (MIT) status for its Australian based Trust. As a result Vital benefited from the favourable 15 percent MIT tax rate through 2013 and continues to have the ability to claim depreciation for tax purposes on its Australian assets.

Net profit after tax was $34.7 million for the year, up from $9.0 million (up 287 percent) in the prior period.

Treasury and capital management

Vital's debt-to-total assets ratio at 30 June 2013 was 42.4 percent (FY2012: 42.3 percent). This is in line with last year and well below its bank and Trust Deed covenants, which are both aligned at 50 percent. The weighted average interest rate as at 30 June 2013 (including line and margin fees) was 6.52 percent (FY2012: 6.87 percent). The lower average rate reflects the fact Vital has been positioning itself at the lower end of its hedging policy range, reflecting the current lower interest rate environment.

The Trust's interest cover ratio as at 30 June 2013 was 2.8 times (FY2012: 2.3 times) and remains comfortably above the 2.0 times bank covenant requirement. At 30 June 2013 Vital's bank facility had a weighted average term to expiry of 2.9 years (FY2012: 3.8 years). Its two facility tranches expire in March 2015 (A$100 million and NZ$20 million) and March 2017 (A$125 million) respectively.

Portfolio activities

According to Mr Carr the key driver of underlying performance is proactive property management. "The continued delivery of asset management activities and initiatives is evident in continued occupancy levels at close to 100 percent and remains consistently one of the highest in the listed property sector".

The Trust's WALT is 11.8 years and remains over twice the New Zealand listed property sector average of 5.3[3] years.

During the 2013 financial year Vital completed a total of 107 rent reviews, equating to approximately 99 percent of income subject to review with an average increase of 1.9 percent (FY2012: 3.3 percent). The lower rent review percentage is primarily due to a lower inflationary environment across New Zealand and Australia.

Only 1.6 percent of portfolio income is subject to lease expiry in 2014 and over the next four years, the average expiry profile is less than 2.1 percent. Mr Carr said, "We continue to take a proactive approach to lease expiry events, which is reflected in the continued high occupancy of the Trust".

Vital's two largest medium term lease expiries are at Allamanda Private Hospital (approximately 12.5 percent of total income) in Southport on the Gold Coast and Mercy Ascot (approximately 10.9 percent of total income) at Ascot Hospital in Auckland. These leases are not due to expire until 2018 and 2019 financial years respectively. Whilst the tenant at Allamanda has not given notice to renew by the prescribed date, Vital remains in active discussions with both tenants, in addition to considering alternative tenancy and/or property strategies should all or part of one or both of these properties become vacant.

The Trust's redevelopment and expansion programme continues to improve hospital asset quality, expanding and diversifying the range of activities undertaken by hospital operators, including medical, surgical, rehabilitation, aged care and psychiatric services.

Strong health sector fundamentals

Mr Carr explained "One of the key drivers of the healthcare sector, and therefore healthcare real estate performance is a direct result of the ageing demographic profile of Australia and New Zealand, where the percentage of population aged over 65 is forecast to almost double over the next 30 to 40 years. This is a fundamental structural change in the demographic profile at a rate not seen before".

"In addition to the structural ageing profile, hospital admission rates and the length of stay increases strongly with age. Technology advances in patient treatment increases demand for specialist treatments like orthopaedics, which also increases life expectancy. This demand is likely to rise exponentially in decades to come".

As a result of the above, there is typically a low correlation between health services and activities and general economic cycles. This translates into a relatively higher level of stability for healthcare real estate, when compared to its wider commercial property peers.

Supporting the above are the private health insurance statistics in Australia where approximately 75 percent of the Trust's assets are located. The Australian PHIAC[4] data for the 12 months to 30 June 2013 shows private hospital insurance membership increased by approximately 262,000 new members, to 47 percent of the population, up 2.5 percent on the prior year. Importantly the PHIAC data shows coverage for those aged over 65 years grew 5.6 percent (approximately 89,000 new members), which accounts for approximately one third of all new members over the period. In New Zealand, HFANZ[5] reports that for the 12 months to 31 March 2013 the percentage of population covered was at 30 percent.

IPD[6] recently released its Healthcare Property Index ('Index') data for the 12 months ending 30 June 2013, with the Australian assets of Vital included in the Index. The Index provides a robust analysis of the investment performance of Australian healthcare real estate, which includes hospital, aged care and specialist medical assets. The Index currently has six participants with a pool of 80 assets valued at A$1.4 billion, a 47 percent increase from when the Index was established, just 18 months ago.

Mr Carr said "The IPD Index is a credible independent measure of the performance and characteristics of the healthcare real estate sector. The IPD Index confirms that on an annualised basis for the five years to 30 June 2013, healthcare real estate has delivered a total return of 10.5 percent compared to all property total return of 5.7 percent over the same period".

---

[3] Forsyth Barr, Real Estate Reflections report, August 2013

[4] Private Health Insurance Administration Council (PHIAC) Quarterly Statistics June 2013, Canberra, 2013

[5] Health Funds Association of New Zealand (HFANZ)

[6] Investment Property Databank (IPD)

Distribution for the year ended 30 June 2013

For the fourth quarter of the 2013 financial year, the Board are pleased to confirm that Vital unitholders will receive a distribution of 2.125 cents per unit with no imputation credits attached. The record date for the distribution is 11 September 2013 and payment will be made on 25 September 2013. The Distribution Reinvestment Plan (DRP) will remain available to unitholders for this distribution with a 1 percent discount being applied when determining the strike price. This will bring the full year cash distribution per unit for 2013 to 7.9 cents.

As indicated in the Simplified Disclosure Prospectus dated 4 July 2013 for the Trust's renounceable rights offer, those unitholders who acquired additional units under that offer will also be entitled to the fourth quarter distribution.

Outlook

Mr Carr said "Vital is on a sound footing. Our portfolio diversification and capital and treasury management strategy continues to be successfully implemented and now forms a platform to further enhance Vital's overall market leading position".

"Reflecting this, post balance date we will continue with a number of key initiatives. These include discussions around medium term lease expiry events, the successful conclusion of the $39.2m Rights Issue, with units due to be allotted on the evening of 23 August and the prudent assessment of value-add development opportunities. We continue to assess potential asset sales and recycling of capital into opportunities that align with the Trust's strategy".

"Our focus is also on investigating and unlocking opportunities to consolidate and further diversify Vital's healthcare real estate portfolio, where a solid alignment of portfolio fundamentals applies, supported by strong healthcare trends, including an ageing population base with increased healthcare demands. The appointment of Richard Roos as Managing Director in Australia further cements Vital's capability and credibility in a key market".

Guidance for the 2014 financial year

In light of a prudent approach to managing the Trust's financial position and pending resolution of medium term lease expiry events, the Board is guiding to a distribution per unit for the year ending 30 June 2014 of 7.9 cents per unit.

– ENDS –

ENQUIRIES

David Carr, Chief Executive Officer
Vital Healthcare Management Ltd, Telephone 09 973 7301, Email dcarr@vhpt.co.nz

Stuart Harrison, Chief Financial Officer
Vital Healthcare Management Ltd, Telephone 09 973 7302, Email sharrison@vhpt.co.nz

About Vital Healthcare Property Trust

With a portfolio value of over NZ$618m, Vital Healthcare Property Trust (NZSX: VHP) is Australasia's largest listed investor in medical and healthcare property infrastructure. With an expert understanding of the needs of healthcare tenants on both sides of the Tasman, we actively select, develop and manage quality properties to meet the growing demand for medical and healthcare services. Our 108 tenants, in 24 properties, provide essential healthcare services to thousands of patients while also undertaking research and providing support services that will make a difference to many more lives in the future.

The Manager of Vital Healthcare Property Trust, Vital Healthcare Management Limited is owned by NorthWest Value Partners Inc., a private real estate investment firm based in Canada with healthcare real estate interests in Canada, Australia, New Zealand, Brazil and Germany.