Vital HEALTHCARE PROPERTY TRUST
Managed by NORTHWEST HEALTHCARE PROPERTIES

MARKET RELEASE

24 February 2022

NorthWest Healthcare Properties Management Limited (**NorthWest**), the Manager of Vital Healthcare Property Trust (**Vital**), today released Vital's results for the 6-months ended 31 December 2021 (**HY22**).

AFFO and distribution guidance upgrade

Following a successful HY22, the Board of NorthWest is pleased to be able to upgrade FY22 AFFO guidance to at least 11.90 cents per unit (**cpu**), 3.2% above FY21, and distribution guidance to 9.75 cpu (annualised), 8.5% above FY21[1]. AFFO guidance was previously 11.80 cpu and distribution guidance was previously 9.50 cpu.

Other key achievements over HY22 include:

- 6.9% increase in net property income from $54.2 million for the 6 months ended 31 December 2020 (**HY21**) to $57.9 million for HY22.
- 13.9% increase in adjusted funds from operations (**AFFO**) from $28.1 million in HY21 to $32.0 million in HY22 equating to a 0.7% increase in AFFO per unit from 5.87 cpu to 5.91cpu.
- 8.6% increase in distributions paid / payable from HY21 to HY22 (4.375 cpu to 4.75 cpu).
- 8.0% increase in net tangible assets (**NTA**)per unit from $2.89 to $3.12.
- Equity raising and other initiatives helped reduce balance sheet gearing to 33.2%, extend average debt duration to 4.4 years and increase headroom to $291 million[2].
- High-quality, pure healthcare portfolio maintained including 17.8 year weighted average lease expiry (**WALE**).
- $314 million of acquisitions[3].
- Long-term development pipeline expanded to over $1 billion[4].

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[1] Actual FY21 payments totaling 8.875cpu, payments of 4.75cpu for HY22 and 4.875cpu guidance for 2H22.
[2] Both pro-forma as at 31 December 2021 including an extension agreed after 31 December 2021.
[3] Includes acquisitions committed post 31 December 2021.
[4] Comprising ~$300m of committed developments, of which $161.4m remains to be spent, and ~$1bn of potential developments being actively pursued. Timing and actual spend of this potential development pipeline will be confirmed if, and when, potential developments convert to committed developments. Developments are expected to be staged over a lengthy period (10+ years).

Net property income

Net property income increased by 6.9% over HY22 from $54.2 million to $57.9 million compared to the prior corresponding period.

Over 99.0% of rent due for HY22 was collected. Vital's high level of rental collection and high occupancy rate demonstrate the resilience of healthcare operators and healthcare assets.

AFFO

AFFO increased by 13.9% from the prior corresponding period ($28.1 million to $32.0 million). This equates to a 0.7% increase in cents per unit (5.87cpu to 5.91cpu). The average across longer periods, including the last one and two years, remains above our target of 2-3% per unit per annum. Following the upgrade noted above, FY22 AFFO guidance is now at least 3.2% above the AFFO recorded for FY21.

Distributions

Distributions paid / payable for HY22 were 8.6% above HY21 at 4.75 cpu (2.375 cpu per quarter) on a conservative pay-out ratio of 80%. Due to the higher AFFO guidance noted above, the Board has increased distribution guidance for the next two quarters to 2.4375 cpu per quarter or 9.75 cpu annualised. Revised guidance equates to an 8.5% increase in distributions per unit from what was paid for FY21[5].

Net tangible assets

NTA per unit rose 8.0% from $2.89 to $3.12 primarily attributable to property revaluation gains.

Capital management

A placement and follow-on UPP were undertaken in October and November 2021 raising $142.8 million primarily from existing unitholders. This reduced balance sheet gearing to ~33% and supported the acquisition of Tennyson Centre in Adelaide (refer below for more details). Equity was raised at $2.90 per unit, approximately equal to NTA per unit at 30 June 2021 and a 3.7% discount to VHP's closing price on the day before launch of the placement.

At 31 December 2021, balance sheet gearing was 33.2%, all-in weighted cost of debt was 3.14% (based on drawn debt only and includes the cost of hedging) and Vital had debt headroom in its existing facilities of A$141 million. Post 31 December 2021, terms were agreed to extend Vital's average debt duration from 3.3 years to 4.4 years (pro-forma at 31 December 2021) and expand headroom to $291 million.

[5] Based on actual payments made for FY21 of 8.875cpu and anticipated actual payments for FY22 of 4.75cpu for HY22 and 4.875cpu for 2H22.

Portfolio

Vital owns a high-quality ~$3 billion portfolio of 43 healthcare income-producing investment properties, diversified across all mainland Australian States and New Zealand. The portfolio comprises 26 private hospitals (representing 82% of the portfolio value), nine ambulatory care facilities (13%) and eight aged care facilities (5%).

Over 3,300 square metres of new or extended leasing was undertaken across Vital 's portfolio during HY22. This helped maintain occupancy above 99.0% and Vital's long WALE of 17.8 years as well as contributing to the earnings growth noted above. Vital's WALE remains the longest of any NZX or ASX listed REIT providing a high level of income security for unitholders.

Acquisitions and divestments

Vital acquired two income producing properties during HY22:

1. Tennyson Centre, Adelaide for ~A$92.75 million. This Cancer Centre of Excellence is located between Adelaide's Airport and CBD and ~500 metres from Ashford Hospital. Tenants include Nexus, Icon, Sonic, Genesis and Dr Jones & Partners. The acquisition includes land suitable for future development. Since acquisition, several key leases have been renewed.

2. Hutt Valley Health Hub, Wellington for $46.5 million. This is a purpose-built, seismically resilient ambulatory care facility adjoining Boulcott Hospital (an existing Vital asset) and Hutt Hospital. Key tenants include Capital & Coast DHB, Ropata Health and Boulcott Pharmacy. Settlement occurred post 31 December 2021 with additional development land expected to be settled later in 2022. The acquisitions will enable Vital to enhance this existing medical precinct including a proposed upgrade and expansion of Boulcott Hospital.

Post 31 December 2021, Vital announced two additional acquisitions in Sydney to support future developments being:

1. Development land to expand The Hills Clinic. This is an existing Vital asset leased to Aurora Healthcare with 25 years remaining on the lease. Estimated costs for the acquisition and development are ~A$50m. Aurora Healthcare has pre-committed to the expansion space providing a ~5% yield on cost for Vital.

2. A multi-stage development site in South West Sydney. Initial payments comprise:

    a. A$52m for acquisition, tenant incentive and development costs of a cancer centre of excellence pre-leased to GenesisCare for 15 years from completion. This "stage 1" provides an initial yield of ~4% and rent reviews of 3% per annum; and

    b. A$24.6m for development rights for stages 2 and 3 providing capacity for Vital to develop up to 40,000 square metres of additional gross floor area.

Refer to separate NZX announcements released earlier this month for more details on these acquisitions.

Vital sold Gold Coast Surgical Centre for ~A$13 million (before costs) during HY22, ~5% above book value. The sale removed a persistent vacancy within the portfolio. Sales proceeds were initially used to reduce debt and will ultimately be used to support Vital's development pipeline.

Developments

Developments are a key component of Vital's strategy to continue to deliver earnings growth and enhance the high quality of the portfolio. As at 31 December 2021, Vital had a committed development pipeline of $303.8 million across ten projects of which $161.4m million was left to complete.

During HY22, ~$50m was spent on capital works comprising ~$42 million on developments, ~$6m on other value-add capital works and ~$2m on maintenance and tenant incentive capital works.

Significant development milestones during HY22 were as follows:

1. Terms agreed for $74 million of expansions and upgrades to NZ Hospitals. Vital has agreed terms with Evolution Healthcare and Southern Cross to upgrade and expand five facilities in New Zealand. Nearly half of this money will be used to expand Grace Hospital in Tauranga which Vital acquired in late 2020.

2. Epworth Eastern development partially completed. This A$96.5 million expansion of the existing hospital is nearing completion with the clinical floors (1-10) handed over to the hospital in November 2021 and the balance expected to be handed over in early 2022. Rent commenced from 1 February 2022.

3. Completion of stage 1 of Playford Health Hub. This ~A$24 million development comprises a 450 bay multi-deck carpark majority leased to SA Health (South Australia's public health authority who operate the adjoining Lyell McEwin Hospital) and 1,700 sqm of ground floor retail. The development is 70%[6] leased providing a yield on cost of 6.8%[7] and also provides ~200 car bays for stage 2 of this development.

4. Commencement of design for stage 2 of Playford Health Hub. This A$49 million specialist medical centre is ~60%[8] pre-leased. Construction is targeted to commence mid-2022 and to complete in late 2023.

5. Memorandum of Understanding signed with Calvary Health Care for stage 3 of Playford Health Hub. Construction of this ~A$93 million private hospital is expected to commence in 2024.

6. Commencement of construction for stage 2 of the redevelopment of Wakefield Hospital. Stage 2 is expected to cost ~$91.5 million and complete in late-2024. Stage 1 completed in mid-2021 for $49.9 million.

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[6] By income.
[7] Stabilised, year 3 yield.
[8] Includes signed heads of agreement

In addition, Vital's potential development opportunities increased to ~$1 billion. These are opportunities which are being actively considered but are not yet committed or approved. The timing and actual spend of this potential development pipeline will be confirmed if, and when, potential developments convert to committed developments. These developments are likely to be staged over an extended period (10+ years).

Outlook

Despite the on-going impacts of COVID-19, Vital's tenants have largely continued to provide a full gamut of acute and sub-acute services and have adapted to more varied cashflows. Increased pressure on public sector wait times is expected to result in an increased reliance on the private sector to unblock the back-logs.

Vital continues to provide a stable earnings stream sourced from a defensive sector with 86% of its leases linked to CPI growth in some way.

Vital remains well-positioned to continue to grow earnings including our revised AFFO guidance, achieve our revised distribution guidance and continue to enhance Vital's high-quality portfolio.

– ENDS –

ENQUIRIES

Aaron Hockly
Fund Manager, Vital Healthcare Property Trust
Tel 09 973 7301, Email aaron.hockly@nwhreit.com

Michael Groth
Chief Financial Officer, NorthWest Healthcare Properties Management Limited
Tel +61 409 936 104, Email michael.groth@nwhreit.com

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 (~82%* of portfolio value), ambulatory care facilities (~13%* of portfolio value) and aged care (~5%* of portfolio value).

Vital is the leading specialist listed landlord of healthcare property in Australasia and currently has a portfolio valued at ~$3* 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 figures are as at 31 December 2021