Vital
Healthcare Property Trust

VITAL UPDATE
SEPTEMBER 2014

INSIDE:

A MESSAGE FROM DAVID

DELIVERING ON STRATEGY

"2014 was another solid year but the work is not over. The relationships we have fostered over recent years will deliver further opportunities in the years ahead."

Dear investor

I am pleased to bring you our latest Vital Update for 2014. This year, we've focused on doing the basics well to deliver further growth and diversification opportunities, address medium-term lease expiries and continue to strengthen and develop partnerships across the healthcare real estate sector. While we continue to deliver on all these fronts, there's no time to rest on our laurels – we are expecting another busy year in 2015!

We announced our results on 14 August and these are covered in detail in the accompanying Annual Report. Investors will receive a fourth-quarter distribution payment of 1.975 cents per unit with imputation credits of 0.7681 attached giving a fully imputed distribution of 2.7431 cents per unit. This payment coincides with the mail out of this update.

2014 – Strong financial and portfolio gains

Let's take a quick look at the 2014 highlights which I believe position Vital strongly for the year ahead:

- Net profit after tax of $37.4m, up $2.7m or 7.8%
- Successful 1-for-10 pro rata renounceable rights issue
- Securing a new 30-year lease at Ascot Hospital and Clinics in Auckland
- Strong revaluation gain of $15.2m on our investment portfolio with Australia and New Zealand portfolios both performing strongly
- Completion of four development projects totalling A$20m and yielding around 10% per annum

As you can see, we achieved a lot over the year. However, the most satisfying result for me remains the early resolution and retention of MercyAscot at Ascot Hospital and Clinics, our most valuable asset. The 30-year lease is an exceptional outcome and reflects the hard work from the team and our long-term partnership approach to working with our operators. This result has materially improved our portfolio metrics and delivers enhanced long-term earnings to investors.

You may recall that post balance date we announced our first acquisition in Western Australia – The Marian Centre. This strategically significant purchase was made in partnership with one of our largest operators and partners, Healthe Care and you can read more about it in this newsletter.

2015 – Focus on Allamanda

Vital is well capitalised and our portfolio is in great shape as we head into 2015. Overall, we are very well positioned for the opportunities ahead.

Our strategy remains fundamentally unchanged and we are focused on our last medium-term lease expiry event at Allamanda.

We continue to enhance our credibility in Australia which remains a large and growing market for Vital. As a result, we expect brownfield developments and acquisition opportunities to crystallise over the coming year.

The key drivers of our business remain sound. A growing and ageing population and rising demand for healthcare services remain key factors to our long-term positive view on the sector.

In the near term, the strong New Zealand dollar and a relatively low Australian interest rate environment continues to provide an attractive funding environment for growth. However, we remain conscious of currency influences on the business and maintain a prudent treasury management approach to handling this.

Having successfully resolved one of the Trust's two medium-term lease expiries, along with a generally positive outlook, the Board is comfortable guiding a 2015 cash distribution of 8.0 cents per unit.

We are excited about the year ahead and look forward to keeping you posted throughout the year.

Kind regards,

David Carr
Chief Executive Officer

HURSTVILLE'S HOSPITAL ROOTS GO WAY BACK

The current redevelopment at Hurstville is just the latest in a long line of developments on the site since the 19th century.

Hurstville Private Hospital in Sydney is currently undergoing a A$28m extension and upgrade. During the planning stages of this redevelopment we found out a little bit more about the history of Hurstville, including that there has been a hospital on the site for 90 years. We think the original occupants who set up the facility to cater to the local community all those years ago would be impressed with Hurstville's latest transformation. On completion the redeveloped hospital will have 114 beds (up from 73), including 72 single private rooms. It will include four new operating theatres (increasing the total to seven) and three new inpatient wards with an extended and modern day surgery unit.

Hurstville started out as a Victorian house. The land was originally granted to Captain John Townsend in 1808. Deemed unsuitable for sheep farming, it remained heavily forested until, some years later, the house which forms the basis for the hospital was built.

It wasn't until 1924 that the residence was converted into a hospital by two ex-army nurses who served in World War 1. The hospital became known as Hurstville Private Hospital in 1951 after being purchased by a local co-operative led by two local doctors who were concerned that the site would otherwise be sold for alternative commercial purposes and the area would lose its hospital. Since then there have been various developments and additions to the site as operators tried to keep up with the demand for services. Vital bought Hurstville in May 2012 and commenced the latest round of development in September 2013.

A$28M
EXTENSION and upgrade

114 BEDS
INCREASED from 73

As you can see from this picture taken in August, work is progressing well and should be completed by mid-2015.

LATEST ACQUISITION ESTABLISHES FOOTHOLD IN WESTERN AUSTRALIA

A$13.5M
MARKET VALUE

20YEAR
WALT

8.5%
INITIAL YIELD

A$10.8M
VALUE-ADD DEVELOPMENT

In August of this year we made our first Western Australia acquisition. The Marian Centre in the medical precinct of Subiaco in Perth was purchased for A$13.5 million on an initial yield of approximately 8.5%.

Marian is a 31-bed stand-alone private psychiatric hospital. It provides both inpatient and outpatient services along with a range of therapy programmes. The facility is located 6km north-west of the Perth central business district and forms part of the larger Subiaco medical precinct. The precinct includes a mixture of for-profit and not-for-profit operators offering a diverse range of medical services including pathology, neurology, oral and dental, orthopaedics, sports medicine, fertility and oncology.

Like Hurstville Private Hospital and Mayo Private Hospital before it, the purchase of Marian was an off-market transaction negotiated directly between Vital and Healthe Care, one of Australia's leading private hospital operators.

Healthe Care has entered into a new 20-year lease for the property, with annual CPI reviews and market reviews every ten years.

We are now undertaking a A$10.8 million redevelopment and expansion project to be completed over the next 12 months to meet growing demand for services in the area. The redevelopment will see bed numbers increase from 31 to 66, refurbishment of existing ward accommodation, a new lift and lobby, extension of the existing dining area and the provision of additional consulting suites.

Chief Executive Officer of the Manager, David Carr says the purchase of Marian is strategically important. "We see this transaction as a catalyst for further opportunities in the Western Australian market, which has the highest levels of private health insurance in Australia at 54% of the population, well above the national average of 47%."

Vital now has a diversified presence in all six Australian states.

"This acquisition aligns perfectly with our strategy to acquire healthcare assets in established medical precincts and add further value by creating capacity to meet patient and operator demand." *– David Carr*

INVESTMENT PROPERTY DATABANK (IPD) UPDATE

IPD recently released its Healthcare Property Index (Index) data for the 12 months ending 30 June 2014, with the Australian assets of Vital included.

The Index is a credible, independent measure of the performance and characteristics of the healthcare real estate sector.

The chart clearly illustrates that on an annualised basis since 30 June 2006, a period of eight years, healthcare real estate has continued to outperform other asset classes with lower volatility in returns. For the year to 30 June 2014, healthcare delivered a total return of 12.5% versus 9.72% for All property.

TOTAL RETURN
(Rolling annual %pa)

Note: direct property returns based on PCA/IPD Index, 30 June 2014.

BROWNFIELD DEVELOPMENTS CREATE WIN WIN WIN FOR OUR AUSTRALIAN BUSINESS

Australian Managing Director Richard Roos looks at the opportunities for our Australian business in redeveloping existing facilities and how those projects benefit Vital, operators and patients.

It's hard to believe that more than a year has passed since my family and I moved from Canada to Australia in order for me to take on this new and exciting position based out of our Melbourne office. I am grateful for the warm welcome from the Vital team in Melbourne and our Auckland head office, our existing tenants and operator partners and am excited about the opportunities in front of us.

As Managing Director – Australia, my role is to ensure we are actively managing our existing Australian assets as well as executing on a variety of opportunities for further growth.

The increasing demand for healthcare services from an ageing population has created significant opportunities to work with our operator partners to expand and modernise our existing facilities. Redevelopment of an existing facility is known in the industry as brownfield development and results in a win-win-win situation. Firstly, Vital as owner of the asset wins by receiving increased rents, enhanced lease terms and an upgraded, more valuable facility in return for providing the development capital. The operator wins as they are able to grow their business in a new and modern hospital and provide enhanced patient outcomes which generate additional profits. Lastly, the patient wins by receiving better care in a larger, more modern facility.

We will continue to focus, through partnering with our existing operators as well as building new partner relationships, to acquire hospitals being divested by other owners. We recently announced the acquisition of The Marian Centre, our first hospital in Western Australia but our third acquisition with Healthe Care, Australia's third-largest private hospital operator. We expect to see more of these types of opportunities moving forward.

Looking ahead, we remain focused on our medium-term lease expiry at Allamanda. So far we can report good preliminary interest from a range of potential healthcare partners including hospital operators and aged care providers. We'll continue to work hard to drive the best available outcome for this asset as we do with our entire portfolio.

Based on the favourable demographics and increasing budget challenges in Australia's public hospital sector we see healthcare real estate continuing to be a very defensive, stable asset class with good opportunities for growth for many years to come.

I look forward to keeping you posted on our progress in the Australian business.

Richard Roos
Managing Director – Australia

> "Australia continues to be a strong and growing market place for Vital and I am excited about the opportunities in front of us." *– Richard Roos*

QUESTION & ANSWERS

KEEPING UP WITH RISING DEMAND FOR HEALTHCARE SERVICES

Sportsmed SA was voted Australia's No.1 private hospital in 2010 and remains one of Australia's leading private hospital operators. It's a state-of-the-art orthopaedic facility and is the largest of its type in Australia. Vital bought the hospital's real estate in 2012. Here, we talk to CEO Alan Morrison about his business and the ever-increasing demand for healthcare services.

Can you describe what Sportsmed SA does?

- Sportsmed SA is a multidisciplinary sports and musculoskeletal injury clinic and private orthopaedic specific hospital. We specialise in the treatment of orthopaedic sporting injuries, arthritic conditions and joint replacements and are supported by a large team including sports doctors, orthopaedic surgeons, physiotherapists, podiatrists, massage therapists, personal trainers, psychologists and dieticians.

What are the market drivers for Sportsmed SA and how are these drivers trending?

- We treat very young patients to very old and everything in between – a good spread across the demographic actually. Growth in the past few years has been in joint replacements in the older demographic.

Where does Sportsmed SA sit within Australia's private hospital operator industry market place and in South Australia?

- Sportsmed SA as a brand is very well known and recognised in the South Australian community and metropolitan area. Our orthopaedic specialists receive patient referrals from a GP referral base that spans not just South Australia but extends into New South Wales and Victoria. Our hospital is a small, independent, surgeon-owned facility. Whilst a relatively small facility in the scheme of the private hospital sector we are performing a relatively high number of the total orthopaedic procedures conducted in South Australia – in some cases as much as 40% of all private and public procedures.

How is Sportsmed SA performing at present?

- We are performing well in a tough economic and political environment and are on track to realise our strategic plan of expansion of our facilities as we are currently capacity constrained. This expansion includes potential for additional theatres and beds and new on-site services such as radiology, pathology and pharmacy.

What is the most important aspect for your business and why?

- The key for us is strong patient clinical outcomes, a high degree of patient satisfaction and excellent working relationships with our doctor referral base and other stakeholders. Our doctor relationships are fundamental, however we have noticed in recent years that patients are increasingly taking more responsibility for their healthcare.

Are there brownfield development opportunities in the future? What are the drivers for this expansion?

- We are close to our strategic plan of a brownfield development. An increasing and ageing population, strong sport participation and an older demographic wishing to remain active through retirement are fuelling demand.

What is your view on greenfield development in the private healthcare sector?

- Construction costs are relatively expensive in this country and without sufficient scale it is very hard for smaller companies like us to make this investment. As the population ages and increases and the public sector continues to struggle under the weight of State budget deficits there is a very big role to be played by the private sector in meeting the needs of the population into the future. There must, therefore, be future government policy to facilitate and encourage growth and investment in the sector.

Where do you see the biggest opportunity for Sportsmed SA?

- Our success to date has been in our narrow area of focus – musculoskeletal and orthopaedics. The opportunity for us is to create a bigger, better and more efficient version of what we currently are. Specialisation and sub-specialisation is our way to gain maximum efficiency without the need for large scale.

How would you describe the regulatory landscape for private hospital operators? Is it improving?

- We need to concentrate on managing patient care for an older, bigger and sicker generation than the one before. The previous Federal Government did us no favours. Whilst the current Government appears sympathetic to the industry and acknowledges its importance in a balanced healthcare system, it is constrained by current budgetary pressures. I am optimistic about the regulatory future in the medium term.

How have you found partnering with a specialist healthcare real estate landlord?

- Vital Healthcare has been fantastic. They have strong leadership, ethics and are business pragmatists and strong partners. Since we have completed our transaction I have been extremely satisfied with all aspects of our relationship and we are currently discussing our expansion plans. Selling our property to Vital Healthcare was an important part in realising our expansion ambitions. As a surgeon-owned and a proudly independent facility prior to partnering with Vital we were constrained by access to capital and the different risk appetites of our owner shareholders. Freeing ourselves from the property has really opened the door for us to focus solely on what is important for the business and follow that path.

What are your interests outside of work?

- Outside of work and spending time with my young family there is not much time left, but where I can find it I really enjoy keeping fit through cycling and running but also enjoy some more sedentary pleasures such as a good book or a glass of one of South Australia's finest reds.

PORTFOLIO METRICS

As at 30 June 2014#

Number of **PROPERTIES**

24

Number of **TENANTS**

105

OCCUPANCY

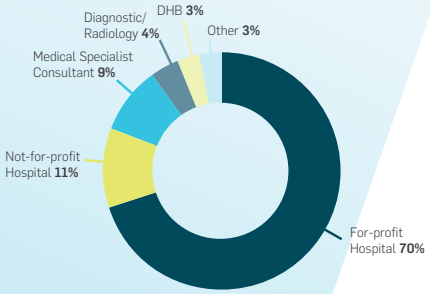
99.3%

WALT

15.1 years

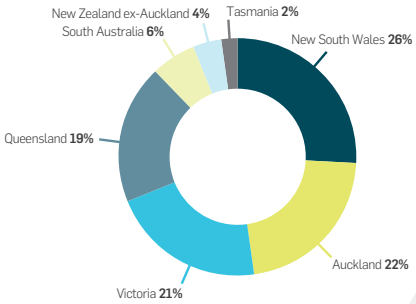
Tenant diversification

For-profit hospitals anchor the portfolio



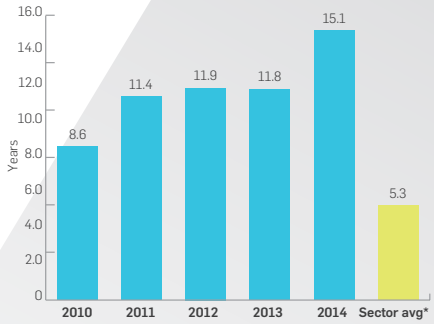
Portfolio geographic composition

Well diversified by geography



Weighted Average Lease Term to expiry (WALT)

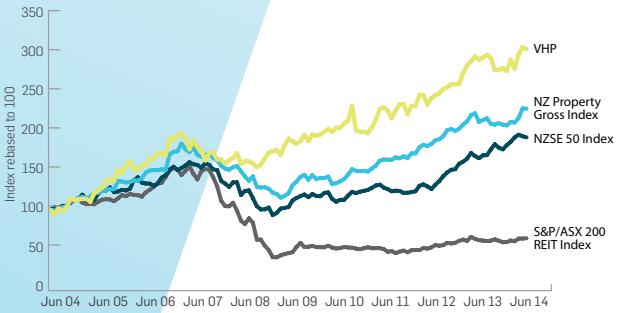
Almost three times the New Zealand listed property sector average



* Sector is New Zealand listed property sector average, excluding VHP.
Source: Forsyth Barr. Real Estate Reflections, August 2014.

Ten-year total return performance

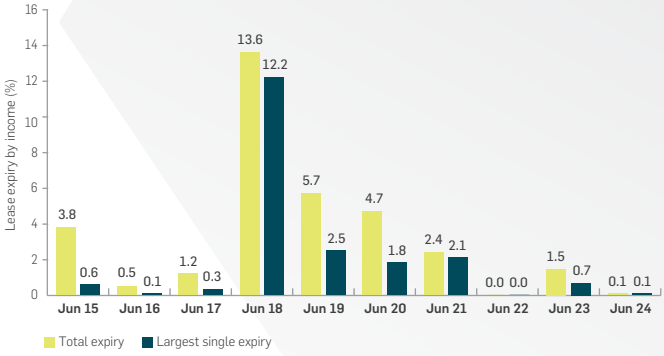
Continues to outperform listed peers and equities



Source: Craigs Investment Partners (CIP) as at 30 June 2014.

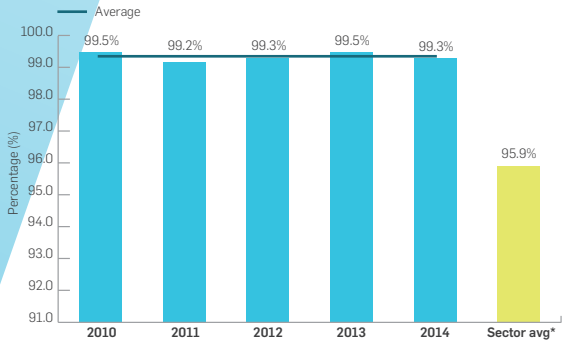
Ten-year lease expiry profile

Low lease expiry profile over the next three years



Occupancy

Vital's occupancy remains among the highest in the sector



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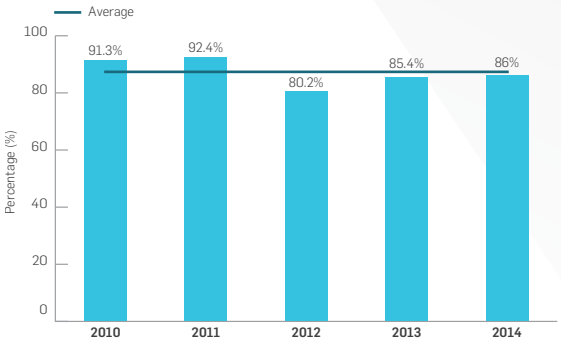
Source: Forsyth Barr, Real Estate reflections, August 2014.

Structured rent reviews

Highly structured review profile provides stability in core portfolio rental income



Excludes The Marian Centre which was acquired post 30 June balance date.

More information can be found on our website: **www.vitalhealthcareproperty.co.nz**

Keep up to date with all Vital events and information at
www.vitalhealthcareproperty.co.nz

Important dates

The Trust's financial year is 1 July to 30 June. Our calendar below shows events, publication dates and distribution dates for the next six months. This is updated regularly on our website as some dates are subject to change.

Quarter four 2014 distribution payment	**25 September 2014**
Annual Meeting held	**November 2014**
Quarter one 2015 distribution payment	**December 2014**
Interim result announcement	**February 2015**

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Managing your unitholding online

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Please assist our registrar by quoting your CSN or shareholder number.