

ASX Announcement

10 May 2017

The Manager
Company Announcements Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Generation Healthcare REIT (ASX Code: GHC)

31 March 2017 update

Generation Healthcare REIT (GHC) is pleased to provide the following unaudited update for the 9-month period ended 31 March 2017, continuing the quarterly update process initiated to support NorthWest Healthcare Properties REIT's Toronto Stock Exchange reporting requirements.

Commenting on the year-to-date performance, Miles Wentworth, GHC's Chief Executive Officer, said "GHC remains on track to deliver its FY17 Underlying Net Operating Income guidance of 10.24 cpu.

In relation to GHC's development projects I am pleased to report that the Frankston Private expansion project reached completion on 13 April 2017, ahead of expectations. Completion of the major stages resulted in the lease start with Healthscope Group on 14 April 2017, with minor reconfiguration / upgrade works within the existing Frankston Private building expected to be completed by 30 June 2017 for this \$44.4 million (GHC share \$28.9 million) project.

Solid progress continues on the \$114.0m (GHC share \$44.5 million) St John of God Berwick Hospital project (approximately 60% complete as at 31 March 2017) which is expected to be completed by the end of the 2017 calendar year. The proposed \$72.0 million Albert and Grey Street project (in 50/50 joint venture with Epworth Foundation) is progressing well, with construction tender documentation and project finance nearing completion. The construction tender process is expected to be run in May / June 2017.

Updated independent property valuations were also obtained for Westmead Rehabilitation Hospital, the Frankston Private Expansion project / Frankston Private (fair value adjustment recognised on a 100% complete basis) and Casey Private Hospital, known as St John of God Berwick Hospital, (fair value adjustment recognised on a percentage complete basis), contributing to a net fair value gain to GHC of \$20.6 million recognised in the quarter."

Key portfolio metrics

	31 Mar 2017	30 Jun 2016
Portfolio Value	\$588.5 million	\$481.9 million
Weighted Average Lease Term to Expiry (WALTE) ¹	12.0 years	12.2 years
Occupancy ¹	98.6%	98.6%

¹ By income.

Underlying net operating income

	Unaudited 9 months to 31 Mar 2017 \$'000	Unaudited 9 months to 31 Mar 2016 \$'000
Net profit attributable to unitholders of the parent	69,448	18,426
Adjusted for:		
- Straight line lease revenue recognition	(799)	(1,235)
- Net (gain)/loss on change in fair value of:		
- Investment properties	(59,977)	(12,288)
- Derivatives	(6,126)	2,045
- Investment properties included in share of net profit of equity accounted investments	-	(962)
- Derivatives included in share of net profit of equity accounted investments	-	266
- Net change in loans carried at amortised cost	146	16
- Lease surrender and new tenant incentives associated with change of significant tenant	486	(889)
- Gains arising on additional investment in Divine Logistics Trust	(370)	(17)
- Manager's performance fee	-	10,787
- Other	147	42
- Non-controlling interest attributable to the above adjustments	13,815	78
Underlying net operating income	16,770	16,269
Underlying net operating income per unit (cents)	7.65	7.58

Consolidated statement of profit or loss and other comprehensive income

	Unaudited 9 months to 31 Mar 2017 \$'000	Unaudited 9 months to 31 Mar 2016 \$'000
Revenue		
Rental income	25,260	22,009
Other property income	3,174	2,640
Interest	3,061	4,783
	31,495	29,432
Other income		
Net change in the fair value of investment properties and deposits	59,977	12,288
Net change in the fair value of derivatives	6,126	(2,045)
Net change in loans carried at amortised cost	(146)	(16)
Gains arising on additional investment in the Divine Logistics Trust	370	17
	66,327	10,244
Total income	97,822	39,676
Expenses		
Property expenses	(4,833)	(4,467)
Finance costs	(5,799)	(5,241)
Fund management fee	(2,215)	(1,860)
Performance fee	-	(10,787)
Other expenses	(520)	(452)
Total expenses	(13,367)	(22,807)
Share of net profit of equity accounted investment	-	1,763
Net profit	84,455	18,632
Other comprehensive income		
Other comprehensive income	-	-
Total comprehensive income	84,455	18,632
Net profit / comprehensive income attributable to non-controlling interests	(15,007)	(206)
Net profit / comprehensive income attributable to unitholders of the Fund	69,448	18,426
Basic and diluted earnings per unit (cents)	31.68	8.68

Consolidated statement of financial position

	Unaudited 31 Mar 2017 \$'000	Audited 30 Jun 2016 \$'000
Current assets		
Cash and cash equivalents	6,305	2,610
Trade and other receivables	4,240	3,267
	10,545	5,877
Non-current assets		
Trade and other receivables	20,909	20,497
Derivatives	288	-
Loans carried at amortised cost	37,097	7,430
Investment properties	588,459	467,624
Deposits on investment properties	-	14,300
	646,753	509,851
Total assets	657,298	515,728
Current liabilities		
Trade and other payables	13,640	11,626
Borrowings	407	398
Derivatives	3,492	3,292
Distribution payable	-	9,646
	17,539	24,962
Non-current liabilities		
Trade and other payables	837	3,164
Borrowings	215,366	146,299
Derivatives	5,907	11,945
	222,110	161,408
Total liabilities	239,649	186,370
Net assets	417,649	329,358
Equity attributable to unitholders		
Issued units	246,495	241,578
Retained earnings	119,326	59,718
Equity attributable to unitholders of the parent	365,821	301,296
Non-controlling interests	51,828	28,062
Total equity	417,649	329,358
Net tangible assets per unit attributable to unitholders²	\$1.66	\$1.38

² Net tangible assets adjusted to exclude the amount attributable to non-controlling interests.

Investment Property (including deposits on Investment Properties)³

	Unaudited 31 Mar 2017 \$'000
Opening balance – 30 June 2016 ⁴	481,924
Additions to existing investment properties	5,845
Acquisition of new investment properties	852
Disposal of investment properties	(11,420)
Expenditure on properties under construction	51,417
Amortisation of tenant incentives	(935)
Straight line lease revenue recognition	799
Change in fair value – unrealised	59,977
Closing balance – 31 March 2017⁴	588,459

³ Investment Property is carried at its 31 December 2016 fair value, adjusted for capital expenditure incurred and the acquisition and/or divestment of property, unless otherwise identified. Accounting adjustments arising from tenant incentives / lease income recognition have been reversed and are included in the category 'Change in fair value – unrealised'.

⁴ GHC's 30 June 2016 Annual Report provides further information on the valuation methodology and process used in respect of Investment Property. For the avoidance of doubt, valuations have not been obtained, nor performed, by the Responsible Entity during the 3-month period ended 31 March 2017 except in relation to Westmead Rehabilitation Hospital (following the acquisition of a future expansion site) and the development projects under construction, being the Frankston Private Expansion project / Frankston Private (fair value adjustment determined on a 100% complete basis) and Casey Private Hospital (fair value adjustment determined on a percentage complete basis). This is in accordance with GHC's valuation policy.

Development Projects (as at 31 March 2017)

Project	Description	Rentalised Project Costs			Carrying value \$'000	Percentage complete	Practical completion date
		Forecast \$'000	Incurred YTD \$'000	Total incurred since inception \$'000			
Frankston Private Expansion	Major expansion including inpatient beds, additional theatres & car parking pre-committed to by Healthscope Ltd.	44,400 ⁵	35,009	42,923	N/A ⁶	96.7%	Stages 1(a)&(b): Completed 13 April 2017
Casey Private Hospital	18,000 sqm private hospital in partnership with St John of God Health Care (tenant and joint landlord).	44,500 ⁷	20,140	27,350	36,676 ⁸	60.4%	Stage 2: Forecast June 2017
							Forecast to be end of 2018 Financial Half Year

⁵ Represents 100% of the Forecast Total Project Cost. GHC's underlying share of this project is 65% and is recognised via its partly owned consolidated subsidiary, Divine Logistics Trust.

⁶ The Frankston Private Expansion project and Frankston Private (in aggregate) were independently valued at \$118.5 million as at 31 March 2017 on an 'as-if' complete basis. A carrying value of \$116.7 million (being \$118.5 million less forecast costs to completion of \$1.8 million) has been recognised as at 31 March 2017. This has resulted in a fair value gain of \$20.1 million over 31 December 2016. Of this increase, \$10.7 million is attributable to GHC unitholders and \$9.4 million to non-controlling interests.

⁷ Represents GHC's share (i.e. 50% base build and 90% of the car park for the hospital and GHC's share of the cost of a potential further stage (Stage 3)) of the \$114.0 million Forecast Total Project Cost for the development of the Casey Private Hospital. Included in GHC share of Forecast project cost is a project contingency of \$2.0 million, which currently remains unspent. GHC's share of Stage 3 forecast costs include \$3.2 million that will be held on balance sheet (an agreed holding cost is to be applied) until the project proceeds.

⁸ Includes \$3.2 million of expenditure and holding costs incurred by GHC as at 31 March 2017 related to Casey Stage 3 that is currently excluded from the Casey Private Hospital project costs. An agreed holding cost will be applied until this project proceeds.

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Recent announcements

- On 5 May 2017, APN Funds Management as Responsible Entity of GHC unanimously recommended NWH Australia AssetCo Pty Ltd as trustee for NWH Australia Asset Trust's (NorthWest), a controlled entity of NorthWest Healthcare REIT, increased unconditional cash offer of \$2.30 per GHC unit (Offer Price), in the absence of a superior proposal and provided that an Independent Expert determines the Offer Price is fair and reasonable. NorthWest has declared its Offer Price as best and final and will not be increasing the Offer Price, subject only to no competing proposal for GHC being publicly announced;
- On 24 April 2017, NorthWest announced an unconditional cash offer of \$2.24 per unit for Generation Healthcare REIT with no minimum acceptance level; and
- On 24 April 2017, APN Funds Management as Responsible Entity of GHC advised that it had received a bidder's statement relating to a proposed off-market takeover by NorthWest and advised GHC members to take no action until issuance of its formal recommendation regarding the offer which will be included in the target's statement to be mailed to all unitholders.

ENDS

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About Generation Healthcare REIT

Generation Healthcare REIT (ASX code: GHC), is Australia's only ASX listed healthcare real estate investment entity.

The Fund owns 16 properties including hospitals, medical centres, laboratories, residential aged care facilities and other purpose-built healthcare facilities. The Fund partners with high quality healthcare tenants with strongly diversified income streams. The Fund has total assets of approximately \$657 million with investments located in Victoria, New South Wales and Queensland.

www.generationreit.com.au

About APN Funds Management Limited

APN Funds Management Limited (APNFM) is the Responsible Entity of Generation Healthcare REIT. The Board of APNFM consists of four directors, three of which, including the Chairman are Independent Directors. APNFM is a wholly owned subsidiary of APN Property Group Limited (APN) (ASX code: APD), a specialist real estate investment manager.

www.apngroup.com.au

About Generation Healthcare Management Pty Limited

Generation Healthcare REIT ("Generation", the "Fund") (ASX: GHC) benefits from the experience, proven track record, healthcare focus and global platform of its manager, Generation Healthcare Management Pty Ltd, a wholly-owned subsidiary of NorthWest Healthcare Properties REIT ("NWH REIT", the "REIT") (TSX: NWH.UN), a Canadian listed dedicated healthcare real estate investor. The REIT is also strategically aligned as the largest unitholder of GHC.

NWH REIT is a Canadian listed real estate investment trust focused on providing investors with access to a portfolio of high quality international healthcare real estate infrastructure comprised of interests in a diversified portfolio of 139 income-producing properties and 864,000 square metres of gross leasable area located throughout major markets in Canada, Brazil, Germany, Australia and New Zealand. In Canada, the REIT is the largest non-government owner and manager of medical office buildings and healthcare facilities with 62 properties located from coast to coast, including major concentrations in Calgary, Edmonton, Toronto, Montreal, Quebec City and Halifax. In its international markets, the REIT partners with leading healthcare operators and has built leading management platforms in global gateway cities comprised of high quality healthcare real estate infrastructure assets characterised by long term indexed leases and stable occupancies.

NWH REIT is an expert in owning, managing and developing healthcare real estate with a dedicated and growing team of more than 180 professionals located in Auckland, Berlin, Melbourne, Sao Paulo and Toronto.

www.nwhreit.com

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