

## QUARTERLY REPORT DECEMBER 2018

# BARWON HEALTHCARE PROPERTY FUND

Barwon Investment Partners is an investment management company specialising in property and private equity.

Total income return for the year to December 2018 is 7.05%

## Performance Report at 31 DECEMBER 2018

| Unit Price (cum) |        |                              | Income Return | Capital Return | Total Return |
|------------------|--------|------------------------------|---------------|----------------|--------------|
| September 2018   | 1.1215 | <b>6 months</b>              | 3.45%         | -2.12%         | 1.33%        |
| October 2018     | 1.0988 | <b>12 months<sup>2</sup></b> | 7.05%         | -3.06%         | 3.99%        |
| November 2018    | 1.1010 | <b>ITD<sup>1,2,3</sup></b>   | 7.45%         | 1.29%          | 8.74%        |
| December 2018    | 1.0960 |                              |               |                |              |

<sup>1</sup> Inception date: 10 October 2014.

<sup>2</sup> Per annum.

The Fund returned 3.99% p.a. over the last 12 months, with the income return and capital return comprising 7.05% and -3.06% respectively in the 12 months to 31 December 2018 (net of fees and expenses, but pre-tax).

The negative 3.06% 12-month capital return was principally driven by the:

- amortisation of acquisition costs (stamp duty, legal costs and other due diligence expenses)
- revaluation of the Vasse Medical Centre, WA ("Vasse") in December 2018; and
- revaluation of the Croydon Medical Centre, Victoria ("Croydon") in August 2018.

Vasse was revalued down to reflect a tenant falling approximately 6 months overdue on their rental and the uncertainty over that tenant's future at the property.

The Fund received a payout of part of a lease at Croydon which resulted in c. \$1.0 million of additional income and a corresponding negative revaluation. As previously reported, this activity was undertaken in order to rebase the anchor tenant's lease (c.64% of the net income) and provide Barwon with the opportunity to add value through active asset management.

Further detail surrounding valuations can be found in the body of the report.

### Distribution

The December 2018 distribution is \$0.0129 per unit and the ex-distribution unit price is \$1.0831. Distributions were paid to investors on 17<sup>th</sup> January 2019.

3. The performance reporting methodology used in this report utilises the geometric mean of income and capital returns over the relevant period based on the accrued monthly income and the monthly movement in capital value. Should an investor prefer performance reporting based on the ANREV methodology please contact management.

## Asset Management

The Portfolio remains at 99.3% occupancy with minimal arrears.

### Logan Mental Health Facility, Logan, Queensland

Management continue to drive the expansion of the Logan Mental Health Facility in Queensland. The project is at advance stages of pre-construction but remains subject to formal leasing arrangements with Queensland Health. Lease negotiations with Queensland Health are well advanced and management hope to agree final terms in the coming month or two.

Approval of the development application was received in December 2018.

The proposed expansion will deliver an additional 2,100 sq.m of lettable area, increasing the building's NLA to c. 5,300 sq.m.

### Logan Mental Health Facility Expansion Scheme

- Additional 2,100 sq.m fully let facility
- New 10-year lease to Queensland Health for the entire property
- Additional mental health services



Artists Impression: Logan Mental Health Facility, Logan, Queensland

### Australian Clinical Labs Pathology Laboratory, Adelaide, South Australia

Construction of the Adelaide Pathology Laboratory reached practical completion in November 2018 and the tenant's (Clinical Labs) 15-year lease commenced on 1 December 2018.

The delivery of this project represents the successful completion of the Fund's first fund through development.

### Adelaide Pathology Lab

- 2,500 sq.m. fully let facility
- Lease term: 15-years
- Market leading healthcare tenant
- Net lease structure



Clinical Labs Pathology Laboratory, Adelaide Airport, South Australia

## Revaluations

The following assets were revalued during the quarter ending 31 December 2018.

|           | Internal/<br>External | Previous<br>Value | Current<br>Value | % Increase<br>to BV | Previous<br>Capitalisation<br>Rate | Current<br>Capitalisation<br>Rate |
|-----------|-----------------------|-------------------|------------------|---------------------|------------------------------------|-----------------------------------|
| Klemzig   | Internal              | 3.40              | 3.41             | 0.29%               | 6.00%                              | 6.25%                             |
| Modbury   | Internal              | 5.60              | 5.73             | 2.23%               | 6.00%                              | 6.00%                             |
| Vasse     | External              | 8.60              | 7.50             | -12.8%              | 7.25%                              | 6.75%                             |
| Carlton   | Internal              | 8.00              | 8.21             | 2.5%                | 5.50%                              | 5.50%                             |
| Bendigo   | Internal              | 12.28             | 12.29            | 0.08%               | 6.50%                              | 6.50%                             |
| Newmarket | Internal              | 8.26              | 8.28             | 0.24%               | 7.00%                              | 7.00%                             |

### Vasse Medical Centre, Vasse, Western Australia

Vasse was independently valued by Jones Lang LaSalle in December 2018 resulting in a ~\$1.0 million (or 12.8%) reduction in the property's value.

The independent valuation was prompted by the fact the general practitioner practice (c. 41% of net income) at the centre is currently 6 months in arrears on their rental.

Management are working with the tenant to rectify the position and exploring the possibility of replacing the tenant with an alternative general practitioner practice. The reduction in the property's value is a consequence of the valuer's assumption regarding the general practitioner's likelihood to rectify the arrears and the estimated costs associated with finding a replacement tenant in the event they cannot.

Once a resolution to the medical tenancy matters has been achieved, management will consider having the property revalued.

## New Investments

There are currently four prospective investments at various acquisition stages.

The assets, which have a combined value of \$30.65 million, all offer long WALEs with attractive covenants and are within the Fund's stated investment strategy.

### Advanced Stage Transactions

The Westwood Medical Centre is a 1,230 sq.m purpose built, mental health and ancillary health facility in South Australia. The property is underwritten by Government leases which represent 70% of the building's income. This property is currently under contact and expected to settle in mid-February 2019.

**Westwood Medical Centre**  
Angle Park, South Australia

#### Under Contract

- Price: \$7.55 million
- 9.4-year WALE
- 70% of income derived from SA Health (State Government)



Westwood Medical Centre, Angle Park, South Australia

## New Investments (continued)

Management have agreed terms for the acquisition of an oncology clinic in Hervey Bay, Queensland. From acquisition GenesisCare (Australia's largest oncology service provider) will occupy the property under a 10-year lease. Settlement is expected in late January 2019.

### Hervey Bay Oncology Centre

Hervey Bay, Queensland

#### Agreed Terms

- Price: \$3.1 million
- Approximately 600 sq.m
- 10-year WALE from settlement
- 10 x 10-year options



Hervey Bay Oncology Centre, Hervey Bay, Queensland

## Pending Transactions

Two of the proposed acquisitions (Peel Street Medical Centre and The Eastbrooke Family Clinic) have long dated settlement structures with completion expected in July 2019.

Both of these properties will be occupied by Eastbrooke Medical (a reputable, national GP clinic operator) for an initial term of 10 years.

### Eastbrooke Family Clinic

Melbourne, Victoria

#### Agreed terms, delayed settlement

- Price: \$10.0 million
- 1,380 sq.m GP clinic
- 10-year WALE from settlement
- 100% leased to established



Eastbrooke Family Clinic, Lincolville, Victoria

### Peel Street Medical Centre

Mackay, Queensland

#### Agreed terms, delayed settlement

- Price: \$10.0 million
- 2030 sq.m GP clinic
- 10-year WALE from settlement
- 100% leased to established GP business; Eastbrooke Medical



Artist Impression: Peel Street Medical Centre, Mackay, Queensland

## Portfolio Attributes

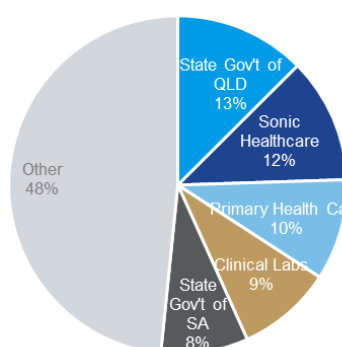
The Fund's portfolio (excluding the new investments noted above) follows:

| Asset   | State | Val. (m)       | Tenants               | Occupancy         | WALE       |
|---|-------|----------------|-----------------------|-------------------|------------|
| Eastbrooke Medical Centre, Belmont              | VIC   | \$7.8          | 5                     | 100%              | 3.7        |
| Croydon Family Practice, Croydon                | VIC   | \$9.7          | 2                     | 100% <sup>1</sup> | 7.0        |
| Newmarket Medical Centre, Newmarket             | QLD   | \$8.3          | 6                     | 85%               | 3.7        |
| Logan Mental Health & Addiction Facility, Logan | QLD   | \$22.5         | 1                     | 100%              | 2.7        |
| Munno Para Medical Facility, Munno Para         | SA    | \$5.4          | 4                     | 100%              | 6.8        |
| Klemzig Medical Centre, Klemzig                 | SA    | \$3.4          | 1                     | 100%              | 2.6        |
| Bendigo Medical Centre, Bendigo                 | VIC   | \$12.3         | 4                     | 100% <sup>2</sup> | 3.0        |
| Modbury Diagnostic Imaging Clinic, Modbury      | SA    | \$5.7          | 2                     | 100%              | 2.9        |
| Hallett Cove Allied Care Facility, Hallett Cove | SA    | \$4.9          | 4                     | 100%              | 3.5        |
| Parkside Medical Centre, Parkside               | SA    | \$13.9         | 3                     | 100%              | 4.0        |
| Vasse Medical Centre, Vasse                     | WA    | \$7.5          | 5                     | 100%              | 7.7        |
| Eastbrooke Medical Centre, Carlton              | NSW   | \$8.2          | 1                     | 100%              | 8.9        |
| Australian Clinical Labs Pathology Lab          | SA    | \$10.4         | 1                     | 100%              | 14.9       |
| Wollongong Medical Centre, Wollongong           | NSW   | \$10.1         | 2                     | 100%              | 11.5       |
| Cowes Medical Centre, Cowes                     | VIC   | \$8.8          | 4                     | 100%              | 4.7        |
| Allcare Medical Centre, Melrose Park            | SA    | \$8.0          | 1                     | 100%              | 9.6        |
| Woodville Community Mental Health Centre        | SA    | \$15.9         | 2                     | 100%              | 8.3        |
| Melton Medical Centre, Melton                   | VIC   | \$16.0         | 1                     | 100%              | 6.6        |
| Springfield Medical Centre, Springfield         | QLD   | \$5.2          | 1                     | 100%              | 9.5        |
| <b>Total</b>                                    |       | <b>\$184.0</b> | <b>48<sup>3</sup></b> | <b>99%</b>        | <b>6.6</b> |

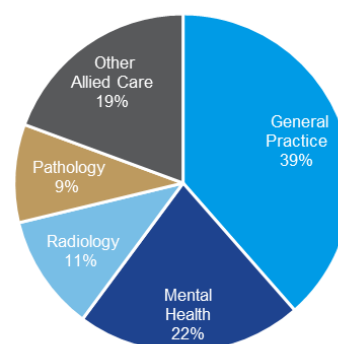
**Notes**

1. A tenant surrendered part of their lease (417 sq. (or 33% of NLA)) in exchange for 1 year of rental paid in advance (Jun-18)
2. Includes a rental guarantee that expires in January 2019 at which point occupancy may decrease to 82%
3. IPN, I-Med, Care Medical and Eastbrooke occupy multiple tenancies across the portfolio

**Key Tenants**



**Key Tenant Use**



Note: The charts above are based on a percentage of Net Operating Income.



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