

# ING Medical Properties Trust

APRIL 2009

## News

[www.ingmedicalproperties.co.nz](http://www.ingmedicalproperties.co.nz)

Ascot Central, Greenlane, Auckland

# Ascot Central awarded Green Star NZ rating

The Trust's newest asset, Ascot Central, has been awarded a Green Star NZ – Office Design 4 Star rating. Located adjacent to the Ascot Hospital and Clinics in Greenlane, Auckland, it is a high-quality, five-level medical and office building that has set the standard for buildings in Auckland's southern corridor.

"We are extremely pleased Ascot Central has been awarded this rating" said David Carr, General Manager ING Medical Properties Limited, the manager of the Trust. "In order to achieve this, a number of innovative sustainable building strategies were considered and selected for this project and materials were chosen for durability, recycled content and low or zero air emissions."

## Construction

During construction, all waste on site was subject to a rigorous recycling programme by the construction contractor Hawkins Construction. In total, more than 50% of all the construction waste was recycled or reused. Rock that was required to be excavated was also processed on site and used for hardfill and aggregate where required.

## Energy efficiency

High efficiency glazing of the building's windows reduces solar heat gain and cooling load. The windows are designed to allow natural light to come in to the building, while blocking most of the heat load from infrared frequencies.

The lighting systems have been designed to include daylight sensors, dimmers and time of day controllers. This means that the lights are at normal strength at the interior of the building, but are dimmer in areas nearer to the exterior windows, where natural light is more prevalent.

## Air quality

Interior materials (including carpet, paint and other finishes) have been selected with an emphasis on reducing volatile organic compounds (VOC). Low or no VOC materials provide a better air quality environment as they release minimal quantities of chemicals into the environment.

Carbon dioxide (CO<sup>2</sup>) monitoring systems have also been installed which increase the amount of fresh air introduced into the building if CO<sup>2</sup> levels rise. This also provides for a better working environment with demonstrated and documented benefits to productivity and occupant health.

## Water efficiency

Rainwater is collected from the roof and stored in underground tanks. This water is then used to flush toilets throughout the building reducing the amount of water drawn from the mains supply, which also mitigates expensive ongoing water charges, therefore benefiting tenants through cost savings.

## Sustainable site

Bicycle racks, lockers and showers on each floor are provided to promote alternative transportation by occupants. The facility is also close to major bus and rail routes, making public transport an attractive option to occupants.

"Energy efficiency and renewable energy are logical for a variety of reasons including improved health and well-being, and therefore increased productivity of occupants, longer term cost savings, reduced demand on an increasingly under-pressure public infrastructure and market image" says Carr.

"This gives the Trust an opportunity to achieve optimal rental growth as tenants look to locate their businesses in superior quality facilities, with sustainable, below average operating expenses."

When considering alternative premises, Green Star NZ rated buildings are increasingly becoming part of a company's mandate and Ascot Central has a distinct market advantage of being the only completed 4 star design rated property in Auckland's southern corridor.

## IMP Director in New Year's honours list



**Graeme Horsley**

When the New Year's honours list was announced earlier this year, a name familiar to our investors was amongst those being recognised for their services and contributions to New Zealand. ING Medical Properties Limited Director, Mr Graeme Horsley had been made a member of the New Zealand Order of Merit, for his services to the valuation profession.

Mr Horsley has over 40 years experience in the valuation profession having worked both in New Zealand and overseas. Mr Horsley was a Partner and National Director of Real Estate at Ernst and Young. He has extensive experience in the valuation of specialised property and infrastructure assets, and the establishment and implementation of corporate real estate strategies. He was very involved in the introduction of global valuation standards and literally rewrote the definition of market value, which is still used internationally.

Mr Horsley is an Accredited Member of the Institute of Directors in New Zealand, the Chairman of Ngati Whatua Orakei Corporation, and is a director of several entities including AMP New Zealand Office Trust and the Tauranga Art Gallery Trust. He is also a member of the High Court on land valuation proceedings.

## Gearing explained and the Trust's position

### What is gearing?

Gearing is simply using borrowed money to invest. Debt financing is borrowing money for a specific period of time that usually must be paid back with interest. Gearing is usually expressed as a percentage of debt borrowed over total assets.

### The global credit crisis

Many observers are of the view that the current financial and economic crisis facing the world is as a result of the insatiable appetite over recent years for growth, with this growth being funded largely by debt financing. Extensive gearing (use of debt) to fund growth has ground to a halt as lenders are concerned about gearing increasing as asset values decline and banker loan covenants potentially being breached.

The good news is that ING Medical Properties Trust has its facility locked in with the ANZ National Bank until March 2011 and as illustrated below, the Trust operates well below current Trust Deed and bank covenants.

Trust Deed	HY09
Total money borrowed	\$100.8m

### Borrowing limitation:- based on:-

Gross value of Trust fund	\$297.1m
Not to exceed 50%	33.9%

### Bank loan facility – ANZ

#### Loan to valuation ratio:- based on:-

Investment properties	\$293.7m
Not to exceed 50%	34.3%

### Interest cover ratio:-

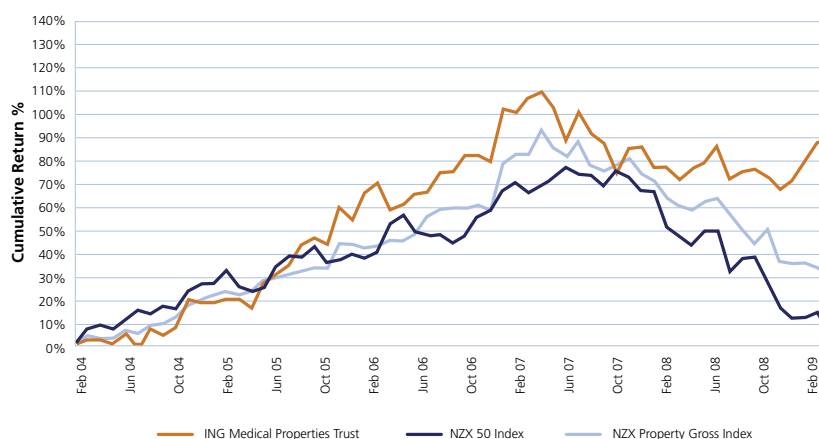
based on 12 months:-

Net interest expense	\$6.8m
Operating surplus	\$19.1m
Equal or exceed 2.25 x	2.79 x

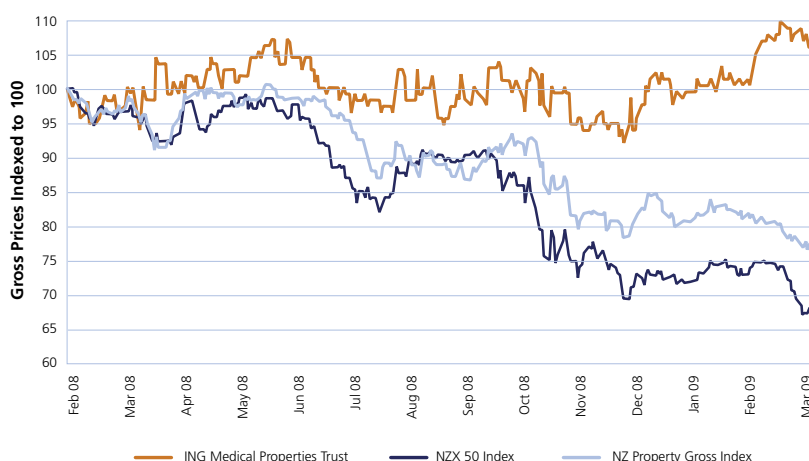
Please note: Notwithstanding the 40% medium to long term gearing target, the Board currently has a more prudent and conservative view on gearing at well below this level in light of the current economic uncertainty and volatility in local and global markets.

## Performance at a glance

### 5 year cumulative returns to 31 March 2009



### 12 month relative unit price performance to 31 March 2009



Source – IRESS

### Portfolio statistics as at 31 March 2009

Portfolio value	\$296.4m
Number of properties	16
Average property value	\$18.5m
Number of tenants	111
Occupancy rate	96.8%
Weighted average lease term	8.8 yrs

14 new leases and renewals completed, YTD equating to 3,628 sqm, securing \$1.33m net income per annum.

26 rent reviews completed, YTD resulting in a 5.14% increase in those rents reviewed.

### Important dates

21–27 May 2009	Unitholder roadshow
16 June 2009	3rd quarter distribution paid
30 June 2009	Year end
Mid August	Year end result released
Early September	4th quarter distribution payable

If you are a unitholder in the Trust and have an enquiry relating to your investment, your personal details, distributions etc., please contact: Computershare Investor Services Limited, Private Bag 92119, Auckland 1020, telephone 09 488 8777, fax 09 488 8787

# Covenant is king!

In the current economic climate it is important to restate the defensive characteristics of the Trust in an otherwise volatile market.

Specifically, the Trust's tenants are considered as being more insulated and resilient from any general fallout in the economy, for example in retail where discretionary spending is expected to come under pressure. The strength and longevity of a tenant's covenant directly reflects the security of rental income that the Trust is then able to distribute to unitholders.

Within each of the Trust's property asset classes – surgical and medical, primary and community care, and health support services – the Trust is further diversified

and therefore defensively positioned with a mix of both private and public sector tenants. These include two District Health Boards and a Crown entity which equate to approximately 15% of the Trust's total rental income.

The Trust's more significant tenants also include three market-leading hospital operators, Mercy Ascot at Ascot Hospital (Auckland), Epworth HealthCare (Melbourne) and Kensington Hospital (Whangarei).

Other cornerstone tenants in the Trust's portfolio include a number of General Practices (GPs) that receive a portion of their funding through Primary Healthcare Organisations and District Health Boards. The Trust also accommodates support

service businesses such as the NZX listed Taylors Group which leases 100% of the Taylors Laundry facility in Pt Chevalier, Auckland.

As a result, the depth of covenant through the Trust's portfolio is strong, with a very low proportion of the Trust's income coming from tenants not directly involved in medical or healthcare activities.

In addition to the strength and diversity of the Trust's overall tenant covenant, through to 30 June 2011, approximately 7% of the Trust's leases are due to expire, with the majority of these leases being for specialist surgical or medical consultants that have historically represented a very high renewal rate of in excess of 90%.

## Portfolio occupancy strengthens and lease expiry profile benign

Similarly to tenant covenant, (see "Covenant is king" above) portfolio occupancy is a critical measure of the current and ongoing performance of the Trust. For this reason, the Manager continues to actively manage the portfolio in order to minimise any exposure to vacancies that may exist.

For the nine months to 31 March 2009, the Trust strengthened occupancy levels by 2.75% to 97.05%. Notwithstanding the recessionary climate this improved occupancy highlights that there remains continued demand for healthcare and

medical operators seeking quality premises to run their practices and businesses.

This improvement in occupancy levels, along with the very benign lease expiry profile over the next few years (as can be seen in chart below) results in a conservative risk exposure to any ongoing or new vacancies in the Trust's portfolio in the near term.

At the start of the financial year (1 July 2008) the Trust had 9.30% of its leases expiring by 30 June 2009. That figure is now below 3.00% and reflects the demand characteristics of the sector.

### Coming to a centre near you

It is that time of the year again. David Carr and Stuart Harrison are hitting 10 centres around the country for the annual investor roadshow from 21-27 May. This is a great opportunity for you to come and meet the executive team, hear about the Trust's activities and performance and ask any questions you may have. Your invite is included with this newsletter. If you didn't get one, please call Sue Martin on 0800 653 653 and she will send one to you.

Whangarei	21st May
Auckland	21st May
Napier	22nd May
Palmerston North	22nd May
Hamilton	25th May
Tauranga	25th May
Wellington	26th May
Christchurch	26th May
Dunedin	27th May
Invercargill	27th May

Lease expiry schedule by % of rent as at 31 March 2009

