

Funding Primary Care Property

November 2014

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IDCM = Independent Debt Capital Markets

- Independent, primary market focussed, debt boutique
- Long track record in Debt Capital Markets / structuring expertise
- Arranger of alternative sources of funding
- Secured or unsecured
- Product neutral – bonds, loans, private placements
- Direct dialogue with buy & hold investors
- Institutional & retail investors

Primary care property transactions



£50,000,000

3.800%
Secured
UK Private Placement
due 2019



Primary Health Properties

£70,000,000

Secured
Floating Rate
Bonds
due 2025



Primary Health Properties

£75,000,000

5.375%
Unsecured
Retail Bonds
due 2019



£110,000,000

4.750%
First Mortgage
Debenture Stock
due 2021

Background

- Growing asset class
 - Increased demand on NHS – over 300 million GP visits per year¹
 - Changing partnership model requires more flexible property ownership
- Well established need to modernise primary care estate
 - 75% of GP premises seen as not suitable for future operations²
 - 57% of GP partnerships believe premises need improving³
- Need private sector investment to provide capital to build

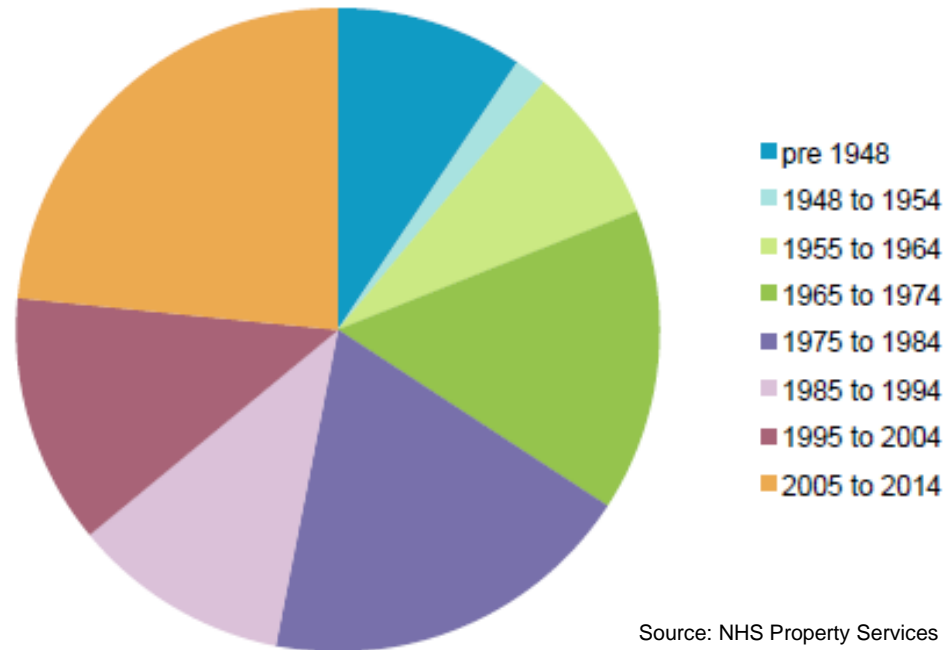
1 – NHS Information Centre

2 – GVA

3 – GP Magazine

Ageing profile of stock

Figure 31: GIA (m2) of health centres by age



Source: NHS Property Services

- Using NHS Property Services portfolio as proxy for sector
 - more than 50% of stock is greater than 30 years old
 - Circa 65% more than 20 years old

Scale

Country	Entity	GAV ¹
UK	PHP PLC	£1,020m
UK	Assura Group	£829m ²
UK	Medicx Fund	£495m
Belgium	Cofinimmo	€1,233m
France	Gecina	€1,071m
France	Icade	€2,250
US	Healthcare REIT	\$27,100m
US	Ventas	\$21,780m
US	HCP	\$18,085m

1 – last reported data
2 – Includes recent acq'n

Source: Goldman Sachs

- UK listed market still small in comparison to other countries
 - Nationalised health provision where significant stock remains
 - GP partnership structure generates wide spread of locations and smaller unit size

Equity funding

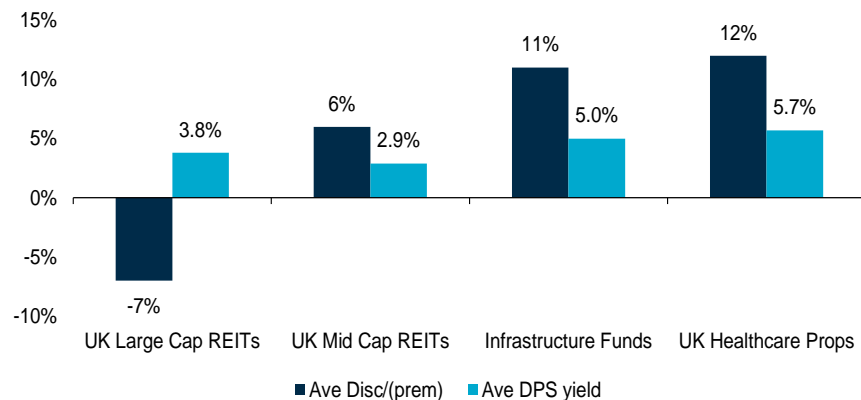
	2010	2011	2012	2013	2014	Total
Assura Group	-	£78.1m	-	-	£180.2m	£258.3m
Medicx Fund	£27.2m	£35.2m	£51.1m	£73.7m	£9.6m	£196.8m
PHP PLC	£2.9m	£16.1m	£22.9m	£110.1m	£1.9m	£153.9m
Target Healthcare	-	-	-	£95.7m	£17.4m	£113.1m
	£30.1m	£129.4m	£74.0m	£279.5m	£209.1m	£722.1m

Source: Numis, Company reports

- Demand from investors for healthcare property equities
- Attracted by strong sector fundamentals
 - Underlying NHS/UK Government rental covenant
 - Longer unexpired lease terms
 - High occupancy rates
 - Potential for income and capital growth

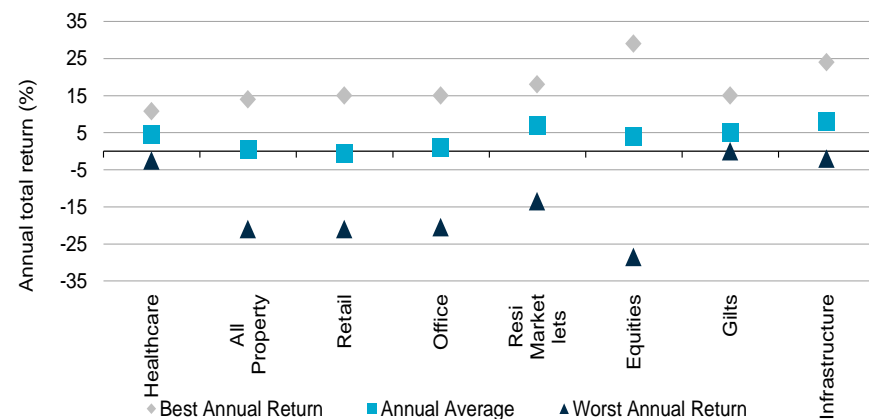
Stable, attractive returns

Healthcare & other yielding asset classes



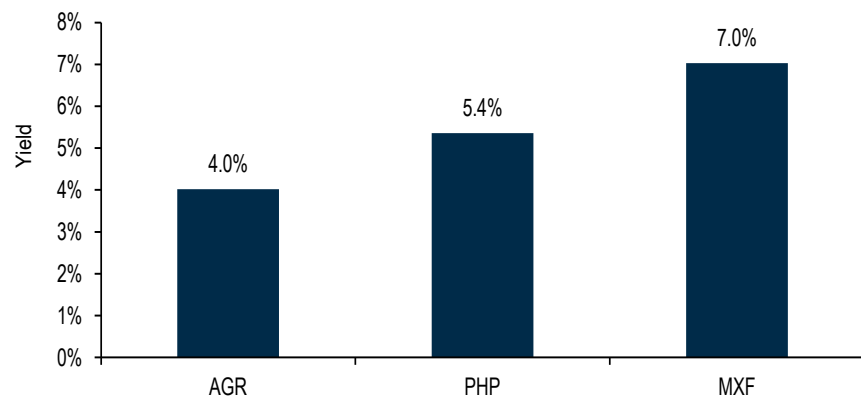
Source: Company & Numis Securities Research Department

Total Returns 2007 - 2013



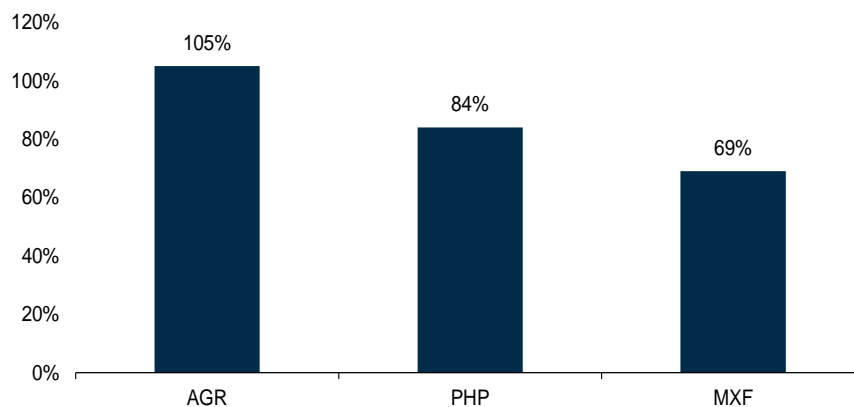
Source: Knight Frank/IPD/ Numis Securities Research Department NB: Infra is NAV Total Return

Prospective Dividend Yield



Source: Company & Numis Securities Research Department

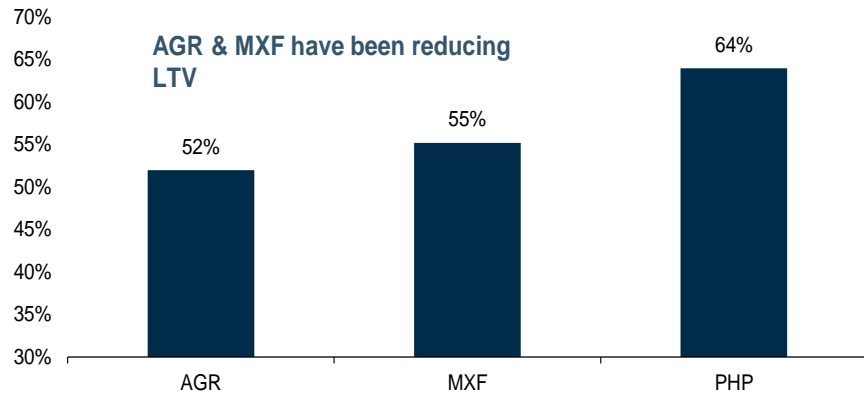
Prospective Dividend Cover (Numis Est.)



Source: Company & Numis Securities Research Department

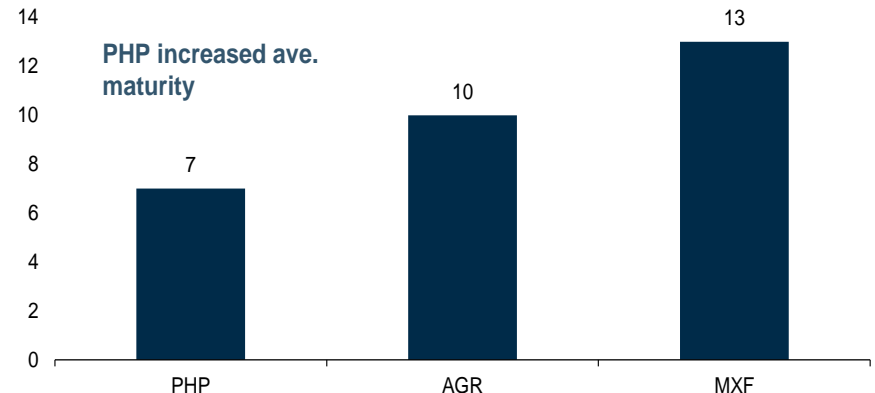
Returns boosted by prudent leverage

Loan to Value



Source: Company & Numis Securities Research Department

Average Debt Maturity - Years

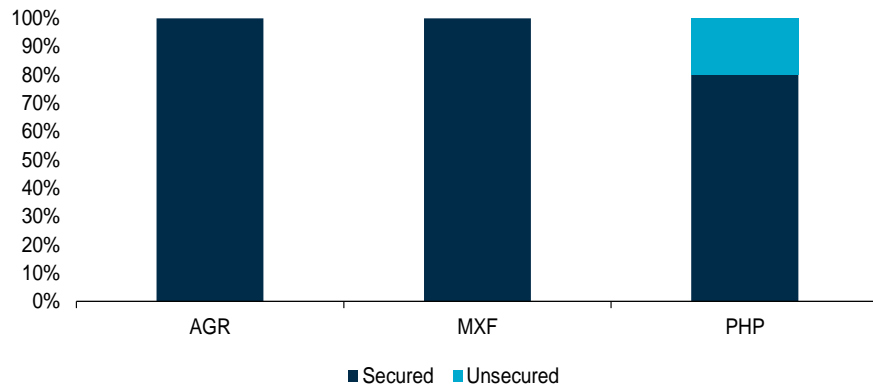


Source: Company & Numis Securities Research Department

- Sector fundamentals support structurally higher leverage
 - Historic funding model of 100% loan to cost
 - Long term lease profile – listed sector average circa 15 years
 - Security of income – average of 90% of rent rolls GP or NHS
 - Stability of valuations – peak to trough through crisis very narrow

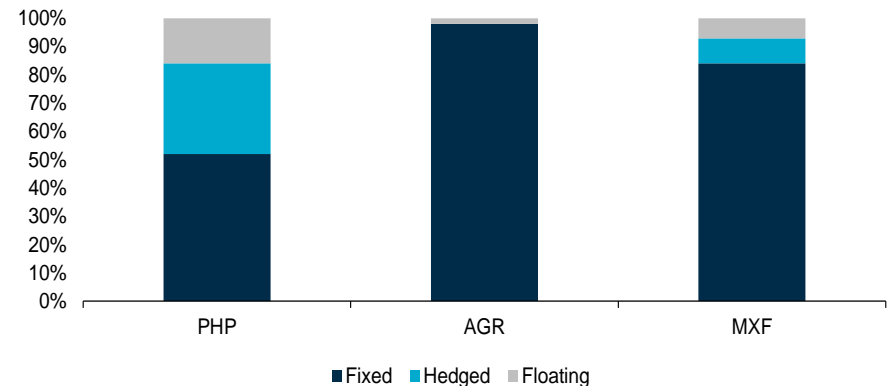
Nature of debt provision evolving

Nature of debt



Source: Company & Numis Securities Research Department

Interest Rate Exposure



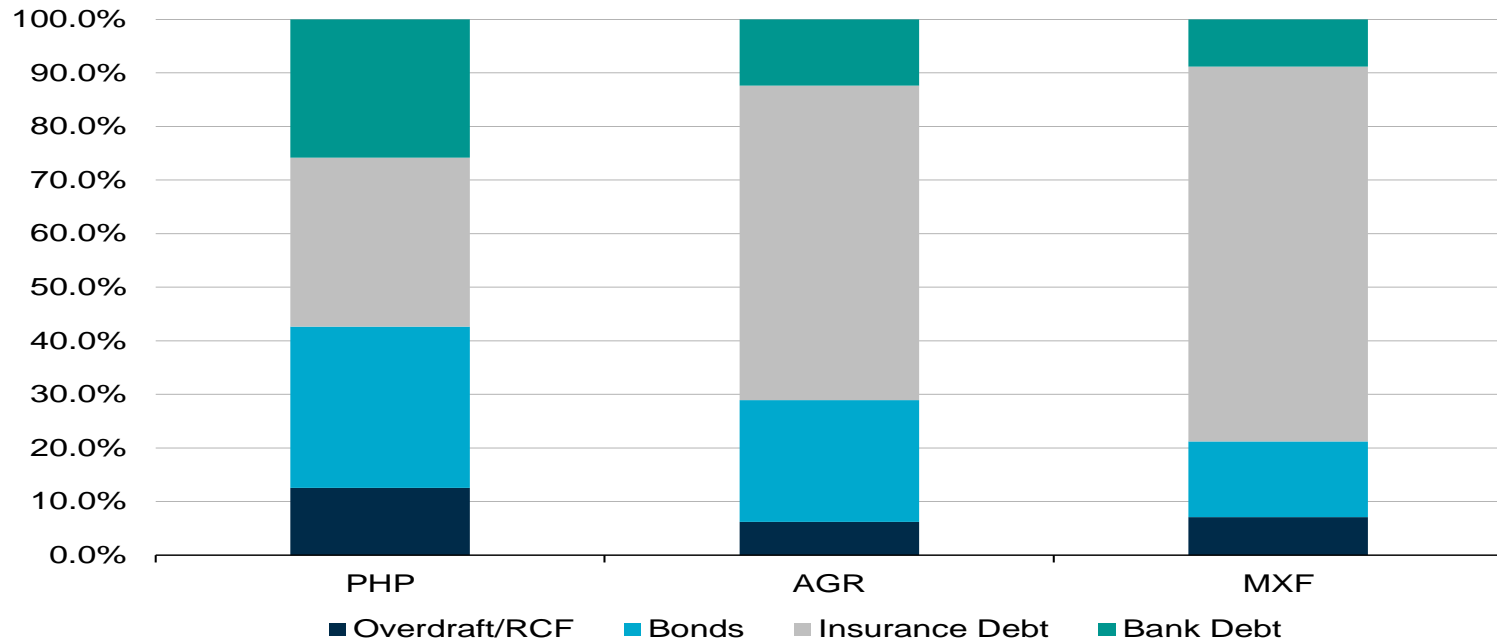
Source: Company & Numis Securities Research Department

■ Sector starting to mature

- First instances of unsecured debt facilities as provider sources widen
- Increased scale allows greater flexibility
- Advent of slotting impacts lender approach

Range of debt providers widening

Source of Debt



Source: Numis

- Sector provides attractive, secure returns for debt providers
 - Spread of risk similar to equity investment in “alternative investments”
 - Underlying lease length being matched to provide long term income

Bank debt characteristics

- Increasing appetite to lend to sector
 - Most high street banks looking to lend
 - Some overseas lenders in or entering market
 - German lenders still have difficulties due to restricted alternative use
- Available LTVs ratios being reduced
- Margins being lowered and directly related to LTV
- Tenors available generally limited to 5 years
- “Slotting” impacting on loan structure – need for parent guarantees
- Corporate facilities being introduced – unsecured

Debt capital markets

- Increasing interest from new lenders and investors leading to new sources of funding for the sector
 - Institutional Loans or “direct lending” by insurance companies
 - Bonds
 - Retail Bonds
 - Convertible Bonds

Drivers of demand from new investors

- Stable, long dated cash flows
- Strong covenant / rent reimbursement
- Low volatility asset class / property market niche
- No speculative development
- Needs based → low voids
- Straightforward structure and documentation
- (Security) and LTV and ICR restrictions
- New sector, new names → diversification

Parallels with well known Housing Sector

	Housing Associations	Primary Care Property
Government obligated cashflows	✓	✓
Crucial UK social infrastructure	✓	✓
Company structure	Industrial & Provident	Corporate, REIT, Fund
Publicly listed & traded	✗	✓
Regulatory oversight	HCA	✗
Properties in ownership	✓	✓
Existing Property	✓	✓
New Build property	✓	✓
Development risk	varies	negligible
Formal credit rating	typical	✗
Medium to long borrowing requirements	✓	✓
Fixed charge over assets	✓	✓
Floating charge	✓	✓
Interest cover covenant	✓	✓
Maximum LTV / gearing covenant	✓	✓

- £110 million
- 10 years (due 2021)
- Interest only – bullet repayment
- Secured on dynamic, ring fenced property pool
- Interest rate: 4.750%
- Sold to a handful of institutional investors
- Listed security (LSE)
- Debut issue from the sector

- £75 million
- 7 years (due 2019)
- Interest only – bullet repayment
- Unsecured !
- Interest rate: 5.375%
- Sold to 42 retail stockbrokers and wealth managers
- Listed security (LSE)
- First listed retail bond for a property company, an unrated borrower without a consumer brand name and a midcap

- £70 million (£60m upfront, £10m after 6 months)
- 12 years (due 2025)
- Interest only – bullet repayment
- Secured on dynamic, ring fenced property pool
- Interest rate: mid swaps + 220bps
- Sold to a single institutional investor
- Listed security (LSE)
- Unusually long for a Floating Rate transaction
- First delayed draw down in the sector

- £50 million (£15m upfront, £35m after 4 months)
- 5 years (due 2019)
- Interest only – bullet repayment
- Secured on dynamic, ring fenced property pool
- Interest rate: mid swaps + 170bps / 3.800%
- Sold to a single institutional investor
- UK Private Placement
- Significant saving in legal fees as not listed
- Unusually short tenor

Horses for courses

	Equity Market	Banks	Aviva	Institutional Loan or PP	Institutional Bond	Retail Bonds
Secured		✓	✓	✓	✓	
Dilution	✓					
Listed	✓				✓	✓
Bilateral	±	✓	✓	✓	±	
Interest Only		✓		✓	✓	✓
Amortising			✓	✓	✓	
Long Tenor	✓		✓	✓	✓	±
Swaps required?		✓				

Convertible Bonds



- Hybrid instrument debt/equity
 - Issued as fixed rate debt with ability to convert into equity
 - Fixed conversion price (i.e. “exchange rate”) with conditions around ability to convert and timing of conversion
 - Conversion price can be reduced by other equity events e.g. further share issues and dividend payments
- Source of unsecured debt
- Pricing typically below pure bond coupons due to equity option
- Pricing can be impacted by
 - Scale – issues >£150m enter index and drive demand
 - Underlying dividend yield – higher yield = higher pricing

Other “funding” considerations

- Future structure of sector
 - Premises Cost Directions and reimbursement model
 - Changes to underlying lease structure – possibly shorter terms
 - Changes to underlying covenant strength
 - e.g. Foundation Trusts
 - e.g. more “NHS bodies” outside of Residual Liabilities Act
- Operational funding of new premises
 - Availability of rental funding by NHS
 - Limited to reimbursement paid on existing old premises
 - No additional funding for enhancement/improvement projects
 - Increasing private sector operators – questions around covenant

Questions?

Appendix - What is a retail bond?

- A fixed interest security paying a regular interest /a coupon
- Repayment of original investment at maturity
- Minimum investment amount < £50,000
- Listed on recognised Stock Exchange
- Sold on basis of Prospectus approved by UKLA*
- Through stockbrokers, wealth managers
- Tradable instrument
- **NOT** – John Lewis, Mr & Mrs Smith, Caxton FX, Leon, King of Shaves, those are financial promotions!

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