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Primary Health Properties PLC
26 January 2009

Primary Health Properties PLC

("PHP" or the "Group")

A specialist provider of Primary Care accommodation for the NHS

Trading Statement

Primary Health Properties PLC, one of the UK's largest providers of modern healthcare properties, issues today a trading update in advance of its audited results for the year ended 31 December 2008, which are currently expected to be announced on 27 February 2009.

Highlights

- Positive primary care fundamentals
- Strong financial position
- Selective acquisition strategy continues with purchase of £4.4m new medical centre in Treharris, Mid Glamorgan
- Board remains optimistic regarding the Group's future growth prospects

Market

The primary care property market continues to enjoy strong fundamentals and the Group is benefitting from strong covenant tenants that continue to serve secure long leases and high quality tenant demand for modern primary care facilities. At 31 December 2008, the Group's property portfolio had a weighted average lease length of 18.0 years.

PHP also benefits from limited supply in its core marketplace of modern primary care facilities which enables the Group to achieve regular rental uplifts. Rental growth achieved on rent

reviews concluded in 2008 averaged 12.3% over the three year rent review cycle, an annualised rate approaching 3.95%.

The primary care market has the advantage of the Government acting as the ultimate guarantor of rent for the accommodation used for providing NHS services, which in PHP's portfolio amounts to approximately 90% of the total rent roll. Furthermore, considering current economic conditions, PHP is in the strong position of having 99.9% of its portfolio currently let.

The market is also supported by the Government's multi-billion pound commitment over the medium term to renewing primary care facilities, and to ensuring that primary care is delivered from modern purpose built accommodation. The Group believes that the primary care property sector, the spending programmes of the Government, accompanied by the clear commitment to move an increasing proportion of healthcare into primary care are not impacted by traditional economic factors.

Activities

The Group continues to seek opportunities to grow its portfolio where rental and capital growth opportunities are identified. During the final quarter of 2008, the Group entered into a purchase and funding agreement for the acquisition of a new medical centre in Treharris, Mid Glamorgan. The acquisition cost will be approximately £4.4m and the centre is expected to be completed in Spring 2010.

The Group has committed term facilities of £255m in place until January 2013 and a 365 day £10m overdraft facility, resulting in headroom of £59m against its year end borrowings of approximately £206m. The Board believes that the Group continues to benefit from a strong financial position and considers it to be well positioned in the current economic environment.

Outlook

The Group is increasingly aware of attractive acquisition opportunities in the primary care property market at rental yields that are materially in excess of funding costs. This follows a softening in property valuations accompanied by substantial reductions in the cost of financing.

The positive industry drivers, highlighted above, are expected to sustain the Group's progressive dividend policy and support the expansion of its property portfolio. The Board remains optimistic regarding the Group's future growth prospects.

In addition, the Group also wishes to update the market on the likely impact on its net asset values, as at 31 December 2008, of the revaluation of its properties and its swap contracts, neither of which, however, impacts its positive cash flow.

Property revaluation

Following discussions with the Group's property advisers Lambert Smith Hampton, Chartered Surveyors and Valuers (LSH), the Board believes that the valuation of the Group's completed property assets including finance leases at 31 December 2008 will be in the region of £317m valued at a 5.9% initial yield, 6.15% true equivalent yield. This will give rise to a revaluation deficit of approximately £13m net compared to the 30 June 2008 valuation.

The loan to value percentage on this basis would be 65% compared to a covenanted level of 75%. This gives a fall to breach percentage margin of approximately 14%.

In addition to the market value exercise performed by LSH, the Joint Managers monitor the value of the Group's completed investment portfolio based on a discounted cash flow analysis. On this basis, the valuation at 31 December 2008 is £367m compared to the market valuation of £317m. The difference of £50m represents £1.49 of net asset value per share. The principal assumptions used in the discounted cash flow analysis are:

- A discount rate of 7%
- An average annual increase in the individual property rents in respect of review dates of 3%
- Capital growth in residual values of 1% per annum.

Mark to market (MTM) adjustment of swap portfolio

The large reduction in medium term interest rates that occurred in late 2008, whilst beneficial to the Group in so far as it reduces the future cost of borrowings and reduces the servicing cost of that part of the Group's portfolio of borrowings that are variable, does result in a reduction in the MTM value of the Group's interest rate swaps. The valuation of the callable swaps is also impacted by the fall in interest rates and by the amount of volatility in the market place at the valuation date of 31 December 2008. The estimated amount of the MTM liability adjustment that has to be booked at the balance sheet date in relation to all these swaps is £28.4m, subject to audit. This reduction in the value of swaps has been caused by the significant recent decline in interest rates, which are currently at extremely low

levels. As interest rates return to a range that is less abnormal the carrying value of the Group's interest rate swaps will increase.

The MTM adjustment is a non cash item, with no impact on operating cash flow and over time will be released out of the balance sheet as the swaps unwind. Although the net asset value booked in the accounts under IFRS is reduced as a result of the latest swap MTM adjustments, the Group's net asset value calculated in accordance with the European Public Real Estate Association's (EPRA's) guidelines is expected to be unchanged.

Although the property and MTM valuation adjustments to the Group's net asset value are material, neither impacts on the Group's cash position and as a result, PHP continues to enjoy strong cash flow. As previously stated, the Board considers that cash flow and the cash returned to shareholders via dividends represent more tangible measures of the Group's success.

- Ends -

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Notes to Editors

IFRS International Financial Reporting Standards

EPRA European Public Real Estate Association.

EPRA net assets (EPRA NAV) are the balance sheet net assets plus the surplus on trading properties and excluding fair value adjustments for debt and related derivatives.

In accordance with the Financial Services Authority's Disclosure and Transparency Rules, the Company hereby it announces that it has 33,587,094 Ordinary Shares of 50p each in issue, each share carrying the right to one vote. The Company does not hold any shares in Treasury.

The above figure of 33,587,094 ordinary shares may be used by Shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, the share capital of the Company under the Financial Services Authority's Disclosure and Transparency Rules.

The figures for 31 December 2008 referred to in this announcement are currently unaudited. The Annual Financial Report for the year ended 31 December 2008 has yet to be prepared and in accordance with the Financial Services Authority's Disclosure and Transparency Rules is expected to be published before 30 April 2009.

This announcement may contain forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances. These statements reflect the knowledge and information at the time of the release of this announcement. Nothing in this announcement should be construed as a profit forecast.

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