

Ireland

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Introduction

- The population in Ireland, currently around 5m, is expected to grow by 20% to c.6m by 2051 with the proportion aged over 65 and 80 expected to grow by 150% and 270% respectively over the same period.
- Like most western economies the Irish population has a prevalence of unhealthy behaviours: 62% are overweight, 22% smoke, 76% consume alcohol and only 32% undertake sufficient levels of physical activity.
- Over the last decade, the government in Ireland has developed various initiatives to modernise and co-locate the provision of a range of primary care services such as General Practitioners (“GP”), Pharmacies, Physiotherapists, Dentists, Mental Health Services, etc.
- Their vision is to establish 200 modern Primary Care Centres (“PCCs”) throughout Ireland.
- The aim of these facilities is to provide a range of health care services to patients at a single location, ease pressure on the regional hospital system and significantly improve care outcomes for patients.
- PCCs are funded in three different ways: government funded developments, public / private partnerships and traditional operational / rental lease agreements with developers and investors such as PHP.

Tipperary Primary Care Centre



Mallow Primary Healthcare Centre



Progress on delivery of Primary Care Centres in Ireland

- The data on the number of modern operational Primary Care Centres (“PCCs”) is limited albeit we understand that of a total of circa 114, only a small number represent modern purpose built facilities fit for an increasing reliance on community based primary care.
- a further 12 PCCs were scheduled to open in 2018
- another 1 PCC is expected to open in 2019
- 31 locations are under construction or development, at advance planning or are underway for design/planning purposes
- 44 were at an early planning stage
- In June 2018, the DoH reported the opening of the 120th Primary Care Centre in Celbridge, Co. Kildare (recently acquired by PHP). It is expected that 7 more will be delivered in the remainder of 2018.
- The increase in the number of operational PCCs has been supported by private, public and non-profit financial institutions such as European Investment Bank.
- Access to funding is vital to get projects up and running and the Irish government has publically welcomed the support of the private sector in assisting in the delivery of it plans.
- Private sector investment by the likes of PHP through forward funding arrangements with developers will speed up the delivery of the Government’s healthcare reform plans.

Celbridge Primary Care Centre

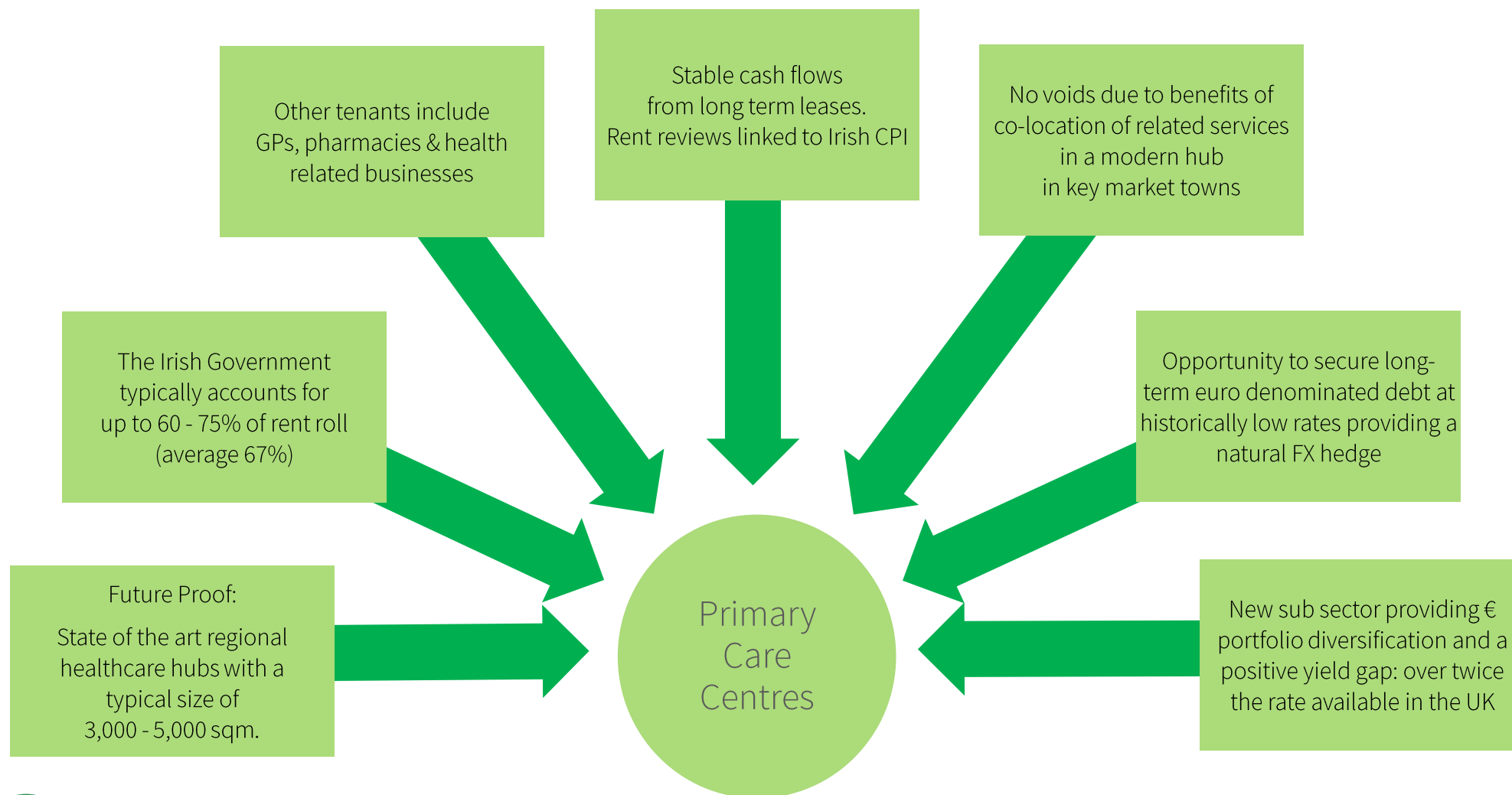


Carrigaline Primary Care Centre



Irish Primary Care Centres – the opportunity

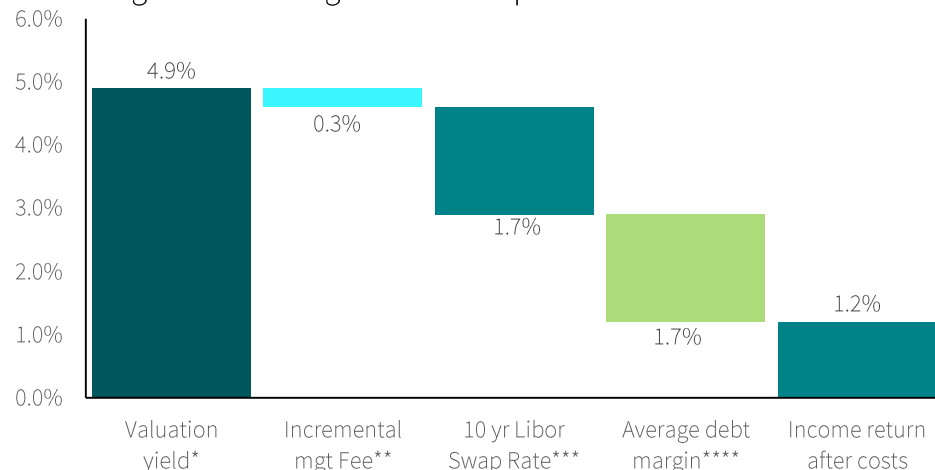
- PHP believes that the Primary Care Centres Sector in Ireland presents an excellent investment opportunity given the following:



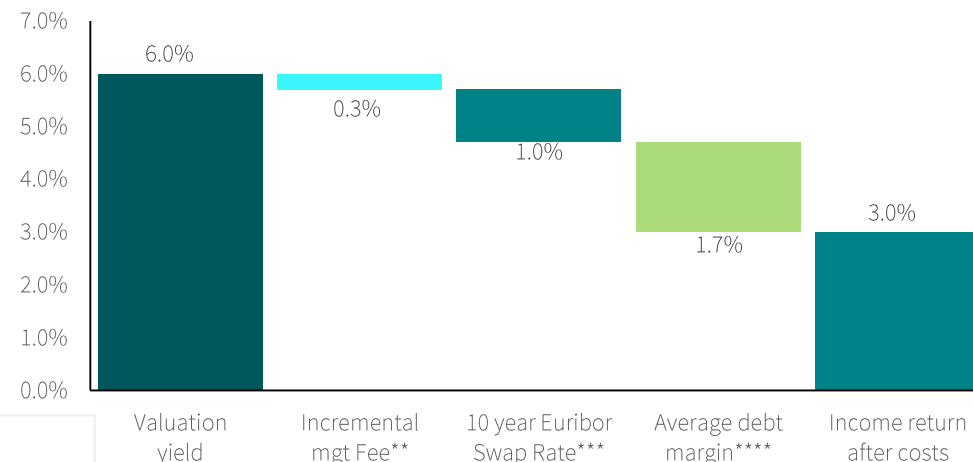
Positive Yield Gap

Illustrative yield gap on property investment

1. Net margin over funding cost – UK Acquisitions



2. Net margin over funding cost – Ireland



Market conditions provide attractive yield spread

1 Earnings growth from operational actions

- Positive yield gap on acquisitions in Ireland
- Asset management contribution
- Rental growth from reviews
- Management fee reductions

2 Active management of funding

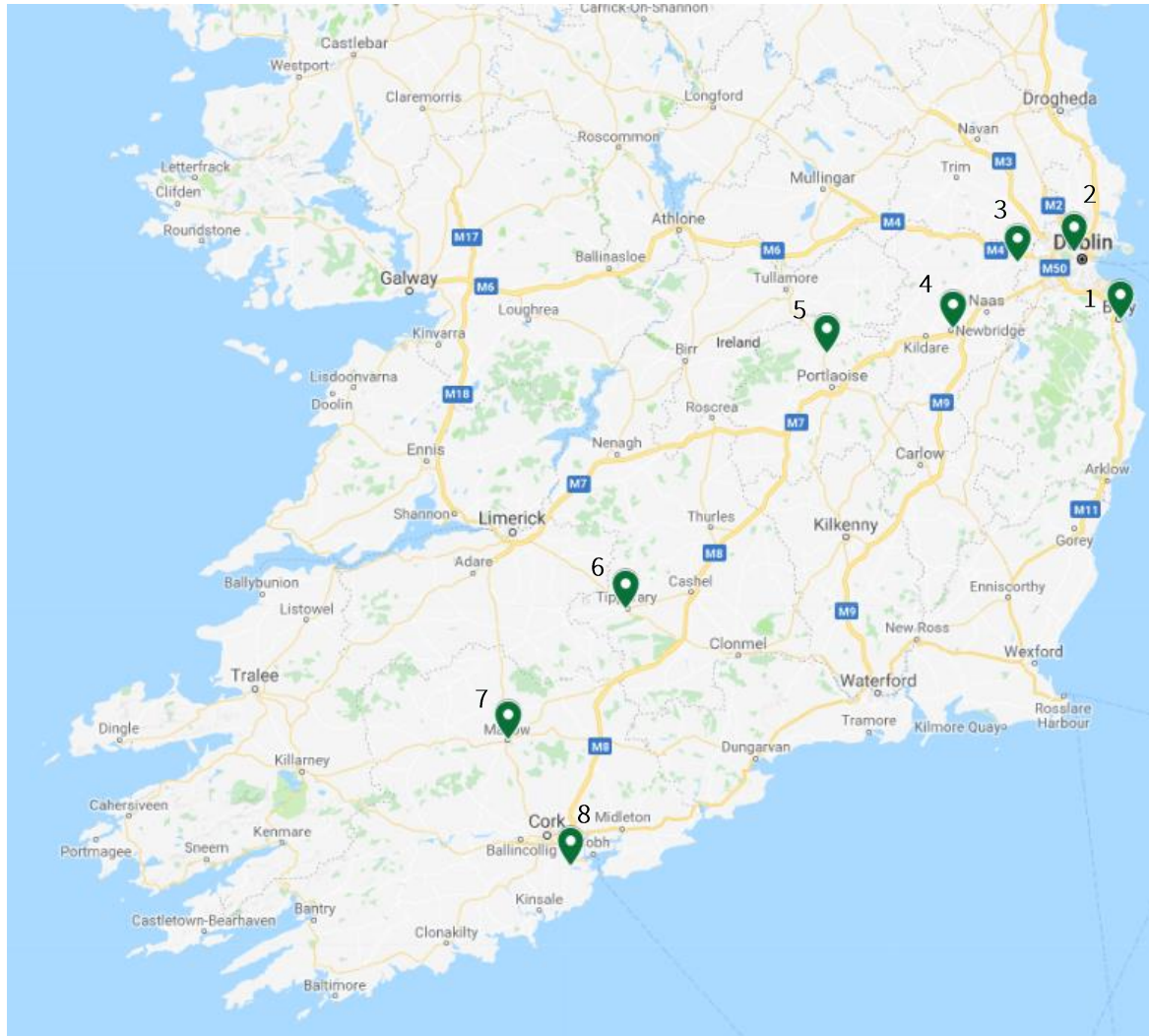
- Driving down the cost of debt
- Widening sources of debt and providers
- Maintaining appropriate leverage given portfolio characteristics

PHP's Irish portfolio at a glance

- Portfolio valued at over €106m across eight assets:
- Total rent roll €6.3m with an average rent of €215 psm.

	Date acquired	Area sqm	WAULT years	Acquisition price (€m)	Income security	Rent €m	%
Tipperary	October 2016	2,400	23.1	6.7	HSE / government agencies	4.2	67
Carrigaline	August 2017	3,000	24.3	7.3	GP's	1.0	16
Mallow	February 2018	6,500	20.4	20.0	Pharmacy	0.8	13
Mountmellick	May 2018	1,800	17.7	5.8	Car park	0.2	3
Celbridge	September 2018	3,500	23.9	13.0	Other	0.1	1
Navan Road	September 2018	3,100	21.9	12.2	Total	6.3	100
Newbridge	September 2018	4,100	20.3	13.4			
Bray (under development)	Autumn 2019	4,800	25.0	22.3			
Total		29,200	22.4	100.7			

Location of PHP's Irish assets



KEY

Asset under development

1. Bray Primary Care Centre (Wicklow)

Completed assets

2. Navan Road Primary Care Centre (Dublin)
3. Celbridge Primary Care Centre (Kildare)
4. Newbridge Primary Care Centre (Kildare)
5. Mountmellick Primary Healthcare Centre (Laois)
6. Tipperary Primary Care Centre (Tipperary)
7. Mallow Primary Healthcare (Cork)
8. Carrigaline Primary Care Centre (Cork)

Forward Funded Development

Bray Primary Care Centre, Ireland

Tenants

Health Service Executive (HSE),
GP practice (11 doctors),
pharmacy and coffee shop

Size

4,800 sqm

Completion

Autumn 2019

Development cost

£19.7m (€22.3m)

WAULT

25 years

Number of GPs

Starting with 11 when
opening in Autumn 2019

Rent review

Irish CPI



Investment Acquisition

Navan Road Primary Care Centre, Dublin 7, Ireland

Tenants

Health Service Executive (HSE),
Centric Health Primary Care (5 GPs),
Mangan Pharmacies Limited,
Insomnia Limited (coffee shop)

Size

3,100 sqm

Date purchased

September 2018

Acquisition cost

£11.0m (€12.2m)

WAULT

21.9 years

Number of GPs

5

Rent review

Irish CPI, coffee shop is reviewed to OMRV



Investment Acquisition

Celbridge Primary Care Centre, Co. Kildare, Ireland

Tenants

Health Service Executive (HSE),
Centric Health Primary Care (5 GPs),
The Child & Family Agency
(Irish Government),
Mangan Pharmacies Limited

Size

3,500 sqm

Date purchased

September 2018

Acquisition cost

£11.7m (€13.0m)

WAULT

23.9 years

Number of GPs

5

Rent review

Irish CPI



Investment Acquisition

Newbridge Primary Care Centre, Co. Kildare, Ireland

Tenants

Health Service Executive (HSE),
Centric Health Primary Care (4 GPs),
Kildare & Wicklow Education &
Training Board (Irish Government),
and Mangan Pharmacies Limited

Size

4,100 sqm

Date purchased

September 2018

Acquisition cost

£12.1m (€13.4m)

WAULT

20.3 years

Number of GPs

4

Rent review

Irish CPI



Investment Acquisition

Mountmellick Primary Care Centre, Co. Laois, Ireland

Tenants

Health Service Executive (HSE),
GP Practice (2 doctors),
pharmacy

Size

1,800 sqm

Date purchased

May 2018

Acquisition cost

£5.1m (€5.8m)

WAULT

17.7 years

Number of GPs

2

Rent review

Irish CPI



Investment Acquisition

Tipperary Primary Care Centre, Tipperary, Republic of Ireland

Tenants

Health Service Executive (HSE),
5 GPs,
pharmacy

Size

2,400 sqm

Acquisition cost

£5.8m (€6.7m)

Date purchased

September 2018

WAULT

23.1 years

Number of GPs

5

Rent review

Irish CPI



Investment Acquisition

Mallow Primary Health Centre, Ireland

Tenants

Health Service Executive (HSE),
4 GP practices (21 doctors),
dentist, optician,
pharmacy
and café.

Size

6,500 sqm

Date purchased

February 2018

Acquisition cost

£17.7m (€20.0m)

WAULT

20.4 years

Number of GPs

21

Rent review

Irish CPI



Completed Development

Carrigaline Primary Care Centre, Ireland

Tenants

Health Service Executive (HSE),
GP practice (5 doctors)
and pharmacy

Size

3,000 sqm

Date completed

August 2017

Development cost

£6.4m (€7.3m)

WAULT

24.3 years

Number of GPs

5

Rent review

Irish CPI



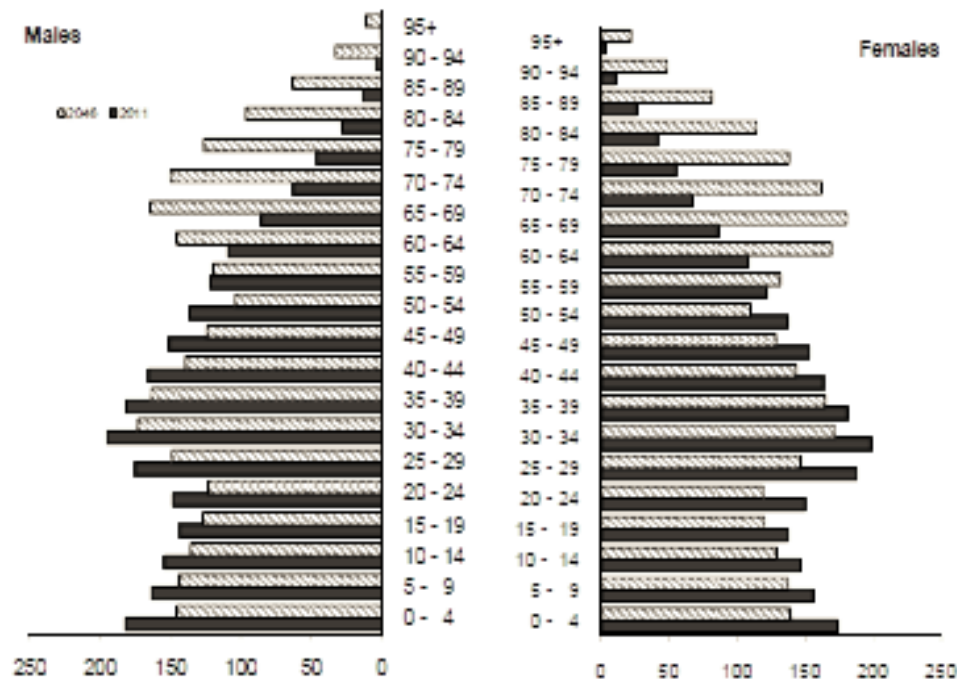
Appendix



Market Fundamentals Remain Strong

- Growing and ageing population with declining health in Ireland
- Demands on health services increasing and budgets under severe pressure

Ireland population forecast 2016 - 2051

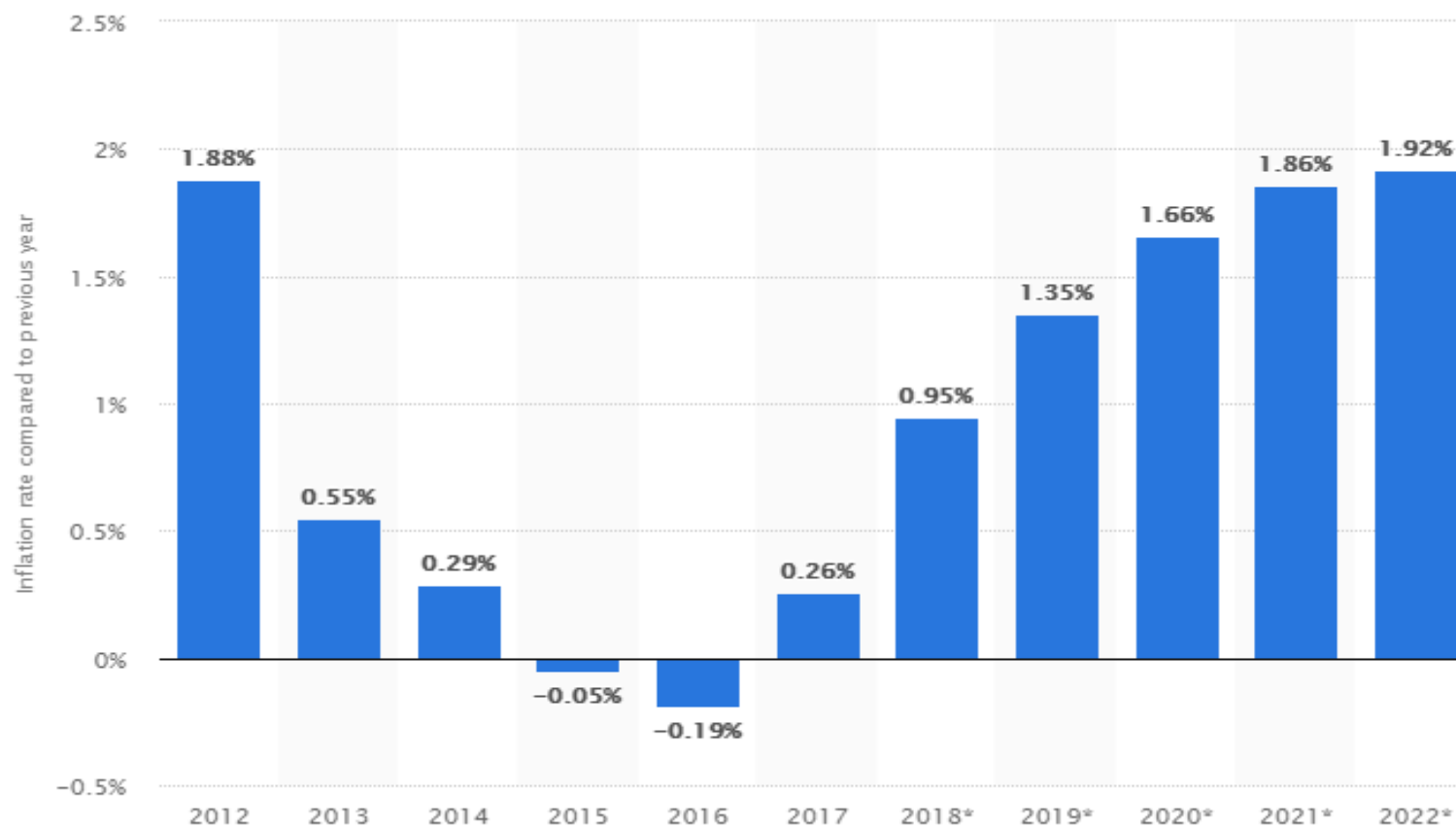


Healthy Ireland survey results indicate the following prevalence of risk factors and unhealthy behaviours in the Irish population:

- 62% are overweight or obese
- 22% smoke
- 76% consume alcohol, over half of drinkers drink at least once a week, and 39% of drinkers binge drink on a typical drinking occasion
- 16% drink sugar sweetened drinks on a daily basis
- Only 32% undertake a sufficient level of physical activity
- 13% report doctor-diagnosed hypertension, 9% report doctor-diagnosed high cholesterol and 4% report doctor diagnosed diabetes.

Irish CPI forecast to increase to just below 2%

- The chart below from Statista shows the average inflation rate in Ireland from 2012 to 2017, with projections up until 2022. In 2017, the average inflation rate in Ireland had amounted to 0.26 % compared to the previous year but is forecast to increase steadily to just below 2% in 2022.
- According to the Central Statistics Office (“CSO”) in Ireland, prices on average, as measured by the CPI, were 0.7% higher in August 2018 compared with August 2017 and projected to be just under 1% in 2018.



Characteristics of the HSE leases

- As the HSE typically commissions the building and takes the majority of the space, they are the anchor tenant in a PCC and typically account for 60 – 75% of the annual passing rent for the building.
- The HSE typically requires 800 sq. m. of space for each primary care team, and there are typically 1 – 3 primary care teams in each PCC. If you consider the vast number of people employed by the HSE alone (115,000 of which 52,000 work in primary care), and the diversity of services they provide it is not hard to imagine why the HSE has got such a substantial requirement for suitable accommodation.
- The HSE agrees the terms of their occupational lease with the developer. The typical key commercial terms for the leases with the HSE are as follows:
 - Initial term 25 – 30 years
 - Rent reviews linked to Irish CPI (compounded every 5 years). Rent can be adjusted upwards or downwards but Irish CPI would have to be cumulatively negative over 5 years for the rent to go down.
 - Landlord responsible for the maintenance of the building but receives a fixed service level agreement (“SLA”) to pay for day to day service charge expenditure and provide a sinking fund for future maintenance.
 - The HSE leases typically contain two ‘soft’ break clauses. Technically, the HSE is allowed to break their lease if either:
 1. The landlord does not maintain the property in line with the provisions of the Service Level Agreement (“SLA”)
 2. The number of GPs operating from the building doesn’t meet the minimum number consistently for a specific period
- In practice, there are a number of ways in which these events are, or can be prevented from happening, which is why we call them “soft breaks”. We set out the mitigating factors on the next two pages.

Characteristics of the HSE leases

1. Maintenance

- Under the typical HSE leases, the Landlord is responsible for the maintenance of the building but receives a fixed service level agreement (SLA) contribution typically €5.00 psf. p.a., increasing by Irish CPI, to pay for day to day service charge expenditure and provide a sinking fund for future maintenance.
- As stipulated in the lease agreement, the sinking fund is held in a separate deposit account.
- GP, pharmacy and other tenants pay for their proportion of maintenance and communal expenses through the service charge.
- Given most of the buildings are brand new, and PHP as a large landlord can benefit from economies of scale, day to day service charge and maintenance expenditure is typically €3.00 psf p.a. and the balance of SLA contribution is committed to the sinking fund for future maintenance.
- As a long term investor in these assets, PHP is highly incentivised to maintain the buildings to a high standard as this is the best way to ensure the continuity of their rental income and a renewal of the lease on expiry.

Characteristics of the HSE leases

2. Minimum number of GPs

- The typical HSE leases contain an obligation on the landlord to ensure a minimum number of GPs will be based in the building.
- The exact requirements varies lease to lease depending usually on the size of the building.
- While some GPs originally may have been encouraged to exchange their often ill-suited home practices for a PCC with a discounted lease, most are keen to join the new purpose built buildings with integrated services, the ability to flex work and use modern technology and facilities. In practice, we think it is unlikely the GP number will dip below the minimum requirement for a prolonged period of time. In a worst case scenario and should this be the case, the landlord has the ability to hire a locum at its cost to ensure the HSE is not in a position to be able exercise the break.
- It is also not in the interests of the GPs to fall below the minimum GP requirement as their lease mirrors the HSE obligation on the landlord who can terminate their lease if the minimum isn't met.
- In practice, the HSE is unlikely to terminate the lease as finding alternative, equally suitable, accommodation for the vast number of staff and the variety of different services they offer will not be straightforward. It is for this same reason that the HSE is likely to renew a PCC lease on expiry, provided the landlords maintains the building such that it remains in good condition and fit for purpose.
- More importantly through, as a professional landlord exclusively dedicated to investment in primary care assets and the country's national health service, the parties' interests are aligned.

The Irish Government's continued focus on Primary Care

The Irish government has developed a clear programme to support the healthcare system with a primary care focus that has evolved in a clear way since 2012. We would highlight the following government reviews, policy statements and established frameworks which clearly demonstrates a commitment to growing and enhancing the primary care estate:

- 2012 – “Future Health, A Strategic Framework for Reform of the Health Service 2012 – 2015”. Marked the start of a programme for reform of the health system where integrated models of care and a single tier health service were central pillars.
- 2014 – a white paper on Universal Health Insurance (“UHI”) was published. The white paper led to the Department for Health costing the implications of a move to a universal health insurance system. The conclusion of the white paper was that UHI was too expansive and that the governments short term focus was to universal primary care.
- 2016 – Department for Health Statement of Strategy 2016 – 2019. The Department for Health commits to a decisive shift towards primary care as a core component of a more integrated health service to include developing new PCCs.
- 2017 – Sláintecare Report, part of Project Ireland 2040. An all party statement to develop a long term policy direction for Ireland’s healthcare system including 10 key recommendations of which primary care expansion was a key plank.
- 2018 – Health Service Capacity Review. Commissioned by the Department for Health the report highlights pressures on the healthcare system with capacity requirements in acute and primary care. Recommending, amongst other things, that multi annual expenditure should be established to support primary care development.
- 2018 – Sláintecare Implementation Strategy. The strategy provides a system wide reform programme to transform Ireland’s health and social care services with primary care and PCCs being a central pillar.
- 2018 – National Development Plan 2018 – 2027. Addresses a major investment programme of investment in health infrastructure with a reorientation to primary care via the primary care construction programme.

Funding new Primary Care Centres

- The HSE is predominantly funded by the exchequer from tax proceeds. A total of 78.3% of all health expenditure, both public and private, was raised from taxation, including pay-related social insurance (“PRSI”) and other sources of government income
- For 2018, the HSE has a budget of c. €14.5 billion which represents an overall increase of €608 million (4.4%) compared to the 2017 budget allocation. An extra £1.1bn of health funding has been announced for 2019 including €154m for capital expenditure projects.
- PCCs in Ireland are typically fitted to a high standard to meet HSE requirements. They are funded in three different ways:
- Exchequer funded developments i.e. funded by the National Treasury Management Agency
 - Focused on areas of high deprivation
 - Refurbishment and extension to existing HSE facilities
- Public Private Partnerships Primary Care Centres projects
 - The program encourages the development of PCC’s through public and private investment
 - Part of a €2.3 billion infrastructure stimulus package in 2012
- Operational / Rental lease agreement
 - No speculative development
 - A lease is signed between the developer and HSE prior to development
 - Developer sells to a specialist real estate investor such as PHP and MedicX.

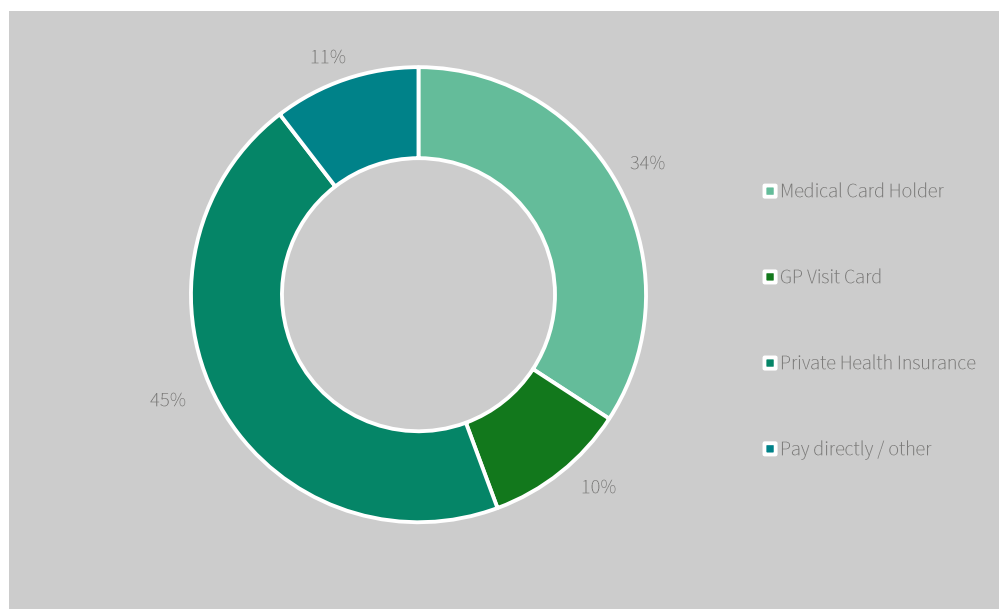
Accessing Ireland's healthcare system

Access to publicly funded healthcare is in principle available to anyone who is 'ordinarily resident' in the Republic of Ireland.

Residents can apply for a Medical Card or GP Visit Card and eligibility will be assessed based on an income threshold which varies dependant upon marital status and number of children. Some people automatically qualify.

- **Medical Card:** this is issued to individuals at the lower income threshold (€10k-€15k p.a.). Medical Card holders are entitled to receive the following services for free:
 - i. GP visits
 - ii. Prescribed medicines
 - iii. Maternity care
 - iv. Dental care
 - v. Eye care
 - vi. Public in or out patient services
 - vii. Some social & personal services
- **GP Visit Card:** this is issued to individuals at the higher income threshold (€14k-€23k p.a.) who do not qualify for a Medical Card, the over 70s and the under 6s as well as people on carer's benefits.
- GP Visit Card holders are entitled to free visits to their doctors, however, they would still need to pay for prescription drugs and a number of other health costs.

Healthcare cover by population



Private Pay or Private Health Insurance: Residents who do not qualify for public healthcare under either of the categories mentioned above either pay for their healthcare (including GP visits) through private insurance or out of their own income.

Delivery of Primary Care in Ireland

- In line with the health reforms set out in the DoH's strategy as set out in "Future Health – A Strategic Framework for Reform of the Health Service 2012-2015", health and social care services are delivered through a number of National Service Delivery Divisions, responsible for the delivery of services to the public.
- The HSE distinguishes the following National Service Delivery Divisions:
 - 1) Acute Hospitals
 - 2) Social Care
 - 3) Mental Health
 - 4) Primary Care
 - 5) Health and Wellbeing
 - 6) National Ambulance Service
- The objective of the Primary Care Division is to ensure that the vast majority of patients and clients who require urgent or planned care are managed within primary care and community based settings whilst ensuring that services are safe and of the highest quality, responsive, accessible, efficient, integrated and aligned with relevant specialist services.
- The HSE is the largest employer in the Republic of Ireland with over 115,000 employees. Approximately 75,000 **people** are employed directly, and a further 40,000 employed by agencies funded by the HSE. Almost half (52,000) of the HSE's staff work in primary care or community services.
- Among others, the HSE employs over 10,000 primary care specialists including GP's, Pharmacists, Dentists and Optometrists / Ophthalmologists. The majority of GP's working in Ireland however are independent contractors.

Delivery of Primary Care in Ireland

- Primary Care is delivered through Community Healthcare Organisations (“CHOs”) of which there are nine.
- CHOs are responsible for the delivery of primary care and other community based services responsive to the needs of local communities.



CHO 1: Donegal, Sligo/Leitrim/West Cavan, Cavan/Monaghan.

CHO 2: Galway, Roscommon, Mayo.

CHO 3: Clare, Limerick, North Tipperary/East Limerick

CHO 4: Kerry, North Cork, North Lee, South Lee, West Cork

CHO 5: South Tipperary, Carlow/Kilkenny, Waterford, Wexford

CHO 6: Wicklow, Dun Laoghaire, Dublin South East

CHO 7: Kildare/West Wicklow, Dublin West, Dublin South City, Dublin South West

CHO 8: Laois/Offaly, Longford/West Meath, Louth/Meath

CHO 9: Dublin North, Dublin North Central, Dublin North West