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Healthy pricing for Evolution hospital portfolio



Shellharbour Private Hospital advertises excellence in health care.

by [Nick Lenaghan](#)

The \$180 million Evolution Healthcare hospital portfolio has prompted some of the strongest bids for medical property offered recently as the sale process enters its final stage. Preferred buyers for the portfolio have now been tapped, according to industry sources, and the **frontrunners are thought to be Sydney manager Barwon Investment Partners** and New Zealand's Vital Healthcare.

As expected, the portfolio is being split into its Australia and New Zealand components as bids are finalised. The larger part of the portfolio, by value, lies in New Zealand. Bidding on the local assets has reached a 5.5 per cent cap rate, while the New Zealand property is likely to change hands at 5.75 per cent. Listed in New Zealand, Vital is already familiar with that market and in a strong position to conduct due diligence on the assets there. Vital's \$1 billion portfolio is heavily weighted towards Australia currently.

Increased skew

Last week that skew increased as Vital invested another \$27.6 million locally, including the purchase of an aged-care facility at Grafton South in NSW. Boutique fund **manager Barwon Investment Partners, thought to be in due diligence on Evolution's Australian hospitals**, launched a \$500 million healthcare property fund for wholesale investors late last year. The equity cap on the fund is about \$325 million.

By February this year, **Barwon had seeded the new fund with a Melbourne pathology facility in a \$20.5 million deal.**

The Evolution portfolio, which is being handled by CBRE, has pulled in a range of powerful buyers and is now likely to set a benchmark in pricing for the sector.

Among the bidders is locally listed Generation Healthcare REIT, which shares a majority investor, NorthWest Healthcare Properties REIT, in common with Vital.

Another interested party is Dexus, which acquired an Adelaide facility for \$42 million last year.

Growing appeal

Evolution's local assets include the Canberra Private Hospital, the Wollongong Day Surgery and the Shellharbour Private Hospital, on the NSW south coast.

The sharp pricing is indicative of the sector's growing appeal to institutional investment.

Yields in the sector have been steadily squeezed over the past four years, from 8.4 per cent in 2013 to 6.61 per cent in 2016, according to JLL.

Further tightening is expected in 2017, with yields for sub-prime assets in the 6 per cent to 8 per cent range and for prime assets in the 5 per cent to 7 per cent range, on the JLL forecast.