

Arena REIT

ARSN 106 891 641 (ASX Code: ARF)

ASX Announcement
30 August 2013

ANNUAL RESULTS FOR YEAR ENDING 30 JUNE 2013 **Arena REIT's underlying profit up 31.8%**

Arena Investment Management Limited (**Arena**), as responsible entity of Arena REIT (**ARF** or the **Trust**), today announced ARF's annual financial results for the year ended 30 June 2013.

Key highlights

- Statutory net profit of \$17.2 million, up 9.8% from the prior corresponding period (**pcp**);
- Distributable income (underlying profit) of \$11.2 million, increased 31.8% on pcp;
- Distributions per unit of 8.0 cents per unit, increased 23.1% on pcp;
- Revaluation gain on investment properties of \$5.7 million, representing an increase of 2.7% on those revalued;
- Net tangible assets increased to \$1.02 per unit (pro-forma \$1.00 per unit on listing);
- Balance sheet gearing of 10.4% at 30 June 2013 following the successful \$75 million capital raising; and
- Undrawn debt capacity of \$85 million available to fund new investments as at 30 June 2013.

Financial summary

Year ended	30 June 2013 \$'000	30 June 2012 \$'000	% Change
Lease rental Income	21,296	21,749	(2.1)%
Other income	722	821	(12.1)%
Total operating income	22,018	22,570	(2.4)%
Direct property expenses	(879)	(1,115)	(21.2)%
Trust admin and oper exp	(985)	(932)	5.7%
Management fees	(2,372)	(2,399)	(1.1)%
Finance costs	(6,622)	(9,658)	(31.4)%
Distributable income	11,160	8,466	31.8%
Non-distributable items	6,064	7,215	(16.0)%
Statutory net profit	17,224	15,681	9.8%
Net assets	210,065	132,778	58.2%
Net tangible assets per unit	1.02	1.00	2.0%

Arena Investment Management Limited ACN 077 235 879
Responsible entity of Arena REIT (ASX:ARF) (ARSN 106 891 641)

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Overview

Arena's Chairman Mr David Ross said "The Board is very pleased that our strategy of repositioning the Trust and providing liquidity to existing investors via the ASX listing was successfully implemented during the year. We believe the Trust is now well placed to generate earnings growth."

Mr James Goodwin, Joint Managing Director, commented that "It has been a busy year involving refinancing the Trust's debt facility, broadening the Trust's investment mandate to provide it with improved earnings growth potential, reducing management fees, renaming the Trust and raising \$75 million in new equity and putting in place a buy-back facility to support liquidity, if required. All in all, it has been a landmark year for the Trust."

Mr Bryce Mitchelson, Joint Managing Director, added "The financial results for FY13 were slightly ahead of the forecast FY13 income statement provided in the Product Disclosure Statement issued on 13 May 2013. The performance of the Trust's investment portfolio remained very solid delivering a cash return above 9% and also steady capital growth. Looking forward into FY14, the Trust's earnings growth will be underpinned by fixed annual rental increases of at least 2.5% on the existing childcare portfolio and we are seeking to secure accretive new investment opportunities, either through development or acquisitions."

From an acquisition perspective, Arena will continue to take a disciplined approach and focus on opportunities in the childcare sector, as well as healthcare and education, where we will aim to secure attractive, high yielding assets leased on a relatively long term basis.

Property portfolio

Property component	Number as at 30 June 2013	Value as at 30 June 2013 (\$'000)	% Total value	Number as at 30 June 2012
Leased childcare centres	167	223,245	95.0%	170
Available for sale / lease	5	4,560	1.9%	3
Development land	4	2,549	1.1%	4
Held for sale	1	1,150	0.5%	-
Office component	-	3,430	1.5%	-
Total Properties	177	234,934	100%	177

Key property portfolio metrics for the 12 months ended or as at 30 June 2013:

- Childcare valuations:
 - Weighted average passing yield: 9.3%
 - Average passing rent per leased place: \$1,546
 - Average value per approved place: \$16,673
 - Average approved places per centre: 80.7
 - Portfolio value increase: \$5.7 million or 2.7% on a like for like basis
- Weighted average lease term remaining: 8.3 years
- Net rental growth was 2.5% pa on a like for like basis
- Average operator centre occupancy 72.9%, up slightly from the previous year
- Reported operator gross revenue growth 4.3%

Remixing of the portfolio occurred throughout the period as follows:

- **Acquisitions (1)** - a development site was acquired at Maddingley for \$890,000 in November 2012 subject to a lease pre-commitment.
- **Disposals (1)** - a property was sold during the period at book value for \$290,000.
- **Development completed (1)** – a pre-committed development at Mernda was completed with rent commencing in May 2013.

Opportunities exist to improve the overall performance of the existing portfolio:

- **Properties available/held for sale or lease (6)** - of the vacant properties available for sale or lease, 1 is now subject to an unconditional contract due to settle in September 2013 at book value, and 1 other has been re-leased, subject to the operator obtaining service approval.
- **Development sites (4)** - work is advancing on 2 of the development sites in relation to preparation of construction drawings, finalisation of costings and tenancy arrangements; these projects are expected to be completed in FY14.

Separately, the Trust is progressing the development of a second centre on an existing centre site on a pre-committed tenancy basis which is also expected to be completed in FY14.

Capital management

During the period, Arena undertook several capital management initiatives:

- **Debt refinancings** – the Trust refinanced its debt facility in July 2012 which resulted in significantly reduced margins and facility fees. In June 2013, the Trust negotiated further improved facility terms taking into account the proposed ASX listing and reduced gearing of the Trust. The Trust has significant headroom given its low gearing of 10.4% and undrawn debt capacity of \$85 million as at 30 June 2013.
- **Interest rate management** - during the period, as a consequence of repaying debt, the Trust's interest rate derivatives positions were closed out. At 30 June 2013, the interest rate on 100% of the Trust's borrowings was fixed at a base rate of 2.95% per annum until 30 June 2016.
- **On market buy-back facility** – the on-market unit buy-back facility remains unutilised.

FY14 outlook

Arena will continue to seek opportunities to improve the performance of the existing portfolio by working with its existing tenants and monitoring the underlying performance of each centre, but also consider new investment opportunities and will seek to gradually diversify its portfolio in accordance with the Trust's investment strategy.

Tenants have lease extension options on 33 properties which can be exercised in FY14. If these options are exercised, these leases will be extended by 5 years beyond FY19. Arena expects most of these options to be exercised.

Arena re-affirms its FY14 distribution annual forecast of 8.2 cents per unit (increasing 2.5% on FY13) on a status quo basis ie assuming that the Trust does not acquire any new investments during the period.

David Ross
Chairman
Arena Investment Management Limited

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About Arena REIT

ARF is an ASX listed property trust with a strategy to invest in sectors such as childcare, education, healthcare and government tenanted facilities leased on a long term basis. At present the Trust owns over 170 Childcare centre properties situated throughout Australia with an aggregate value of over \$230 million. Distributions are paid to investors on a quarterly basis.

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