



Arena REIT (ASX Code ARF)

Webinar presentation and conference call

Proposal to staple with Sydney HealthCare Trust
and Affinity transaction

Implementing strategy to improve diversification and earnings

27 November 2013
arenainvest.com.au



Presenters



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- Involved continuously in the property funds industry since 1992.
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Executive summary

The Stapling Proposal

- Arena is proposing to staple units in Arena REIT (ASX code: ARF) with units in Sydney Healthcare Trust (**SHCT**) on a 1 for 1 NTA per unit basis (**Proposal**).
- SHCT owns 6 medical clinics situated in NSW leased to Primary Health Care Limited. The properties were last valued in 30 June 2013 at \$54.7 million on a passing yield of 8.9%.
- SHCT investors are being offered the opportunity to redeem some or all of their investment for cash equivalent to \$1.15 per Stapled Security, or to remain invested in the stapled group.
- The Stapling Proposal is subject to approval by both ARF and SHCT investors (9 Dec 2013).
- Independent Expert has opined that the Stapling Proposal is in the best interests of ARF investors and is fair and reasonable.
- The majority independent Arena Board has unanimously recommended ARF investors vote in favour of the Stapling Proposal in the absence of a superior proposal.

Affinity

- ARF has conditionally agreed to acquire 14 childcare centres for \$24.0 million to be leased to Affinity Education Group Limited (Affinity) on an initial passing yield of 9.05%.

The impact

- Diversifies the investment portfolio to include healthcare, increased geographic exposure to NSW, and broadens ARF's tenancy base.
- If both transactions proceed, FY14 Pro Forma Forecast earnings per security increases from 8.2 to 9.2 cents on an annualised basis (12.2% increase), and FY14 Statutory Forecast distribution will increase from 8.2 to 8.65 cents (5.5% increase). Refer to the Product Disclosure Statement dated 1 Nov 2013 for Forecast assumptions.

2 The Stapling Proposal



2 Overview

Key features

- Stapling of ARF units with SHCT units on a 1 for 1 NTA per unit basis.
- SHCT investors can elect to accept cash of \$1.15 per Stapled Security held or continue holding stapled securities. The offer represents an equivalent pricing premium of 2.6% on the current portfolio carrying value when compared to acquiring the properties directly.
- Proposal is conditional on the approval by both ARF and SHCT investors (9 Dec 2013) and regulatory approvals.
- Stapled group to be listed on ASX under the same code 'ARF'.

Rationale

- Consistent with ARF's broadened strategy to include assets in healthcare, education and government sectors.
- Exposure to healthcare assets at an attractive price
- Increased earnings which will improve the attractiveness of distributions to ARF investors.

Key ARF documents

- ASX Announcement dated 1 November 2013
- Notice of Meeting & Explanatory Memorandum (1 November 2013).
- Product Disclosure Statement (1 November 2013).
- Proxy Voting Form (By 7 December 2013).
- ASX Announcement of Affinity Transaction dated 6 November 2013.

Mailed to investors
and available on
Arena website
15 November 2013

2 Key conditions

Approval by ARF investors

- To be held on Monday, 9 December 2013 at 12.00pm at the Spring Street Conference Centre, 1 Spring St, Melbourne.
- Meeting to consider and vote on the Proposal and general constitutional changes.
- For the Proposal to be approved, 75% of the votes cast (in person or by proxy) by eligible investors must be cast in favour.

Approval by SHCT investors

- To be held on Monday, 9 December 2013 at 10.00am at the Spring Street Conference Centre, 1 Spring St, Melbourne.
- Meeting to consider and vote on the Proposal.
- For the Proposal to be approved, 75% of the votes cast (in person or by proxy) by eligible investors must be cast in favour.
- Arena Property Fund is ineligible to vote but has accepted the Redemption Offer.

Reminder – Proxy votes for ARF investors closes at 12:00pm on 7 December 2013.

2 Benefits, disadvantages and risks

Benefits

- ✓ Portfolio diversification:
 - Introduces healthcare exposure.
 - Broadens tenancy base.
- ✓ Relatively long remaining lease terms.
- ✓ Increase in ARF's FY14 statutory forecast distribution from 8.2 cents to 8.45 cents per stapled security. Forecast to increase further to 8.65 cents if the Affinity acquisition settles.
- ✓ Increase in ARF's pro forma FY14 net profit available for distribution (annualised basis) from 8.2 cents to 8.8 cents per stapled security. Forecast to increase further to 9.2 cents if the Affinity acquisition settles.
- ✓ All of the assets in the healthcare portfolio were purpose built between 2000 and 2002 and are leased to Primary Health Care, an ASX100 listed company.

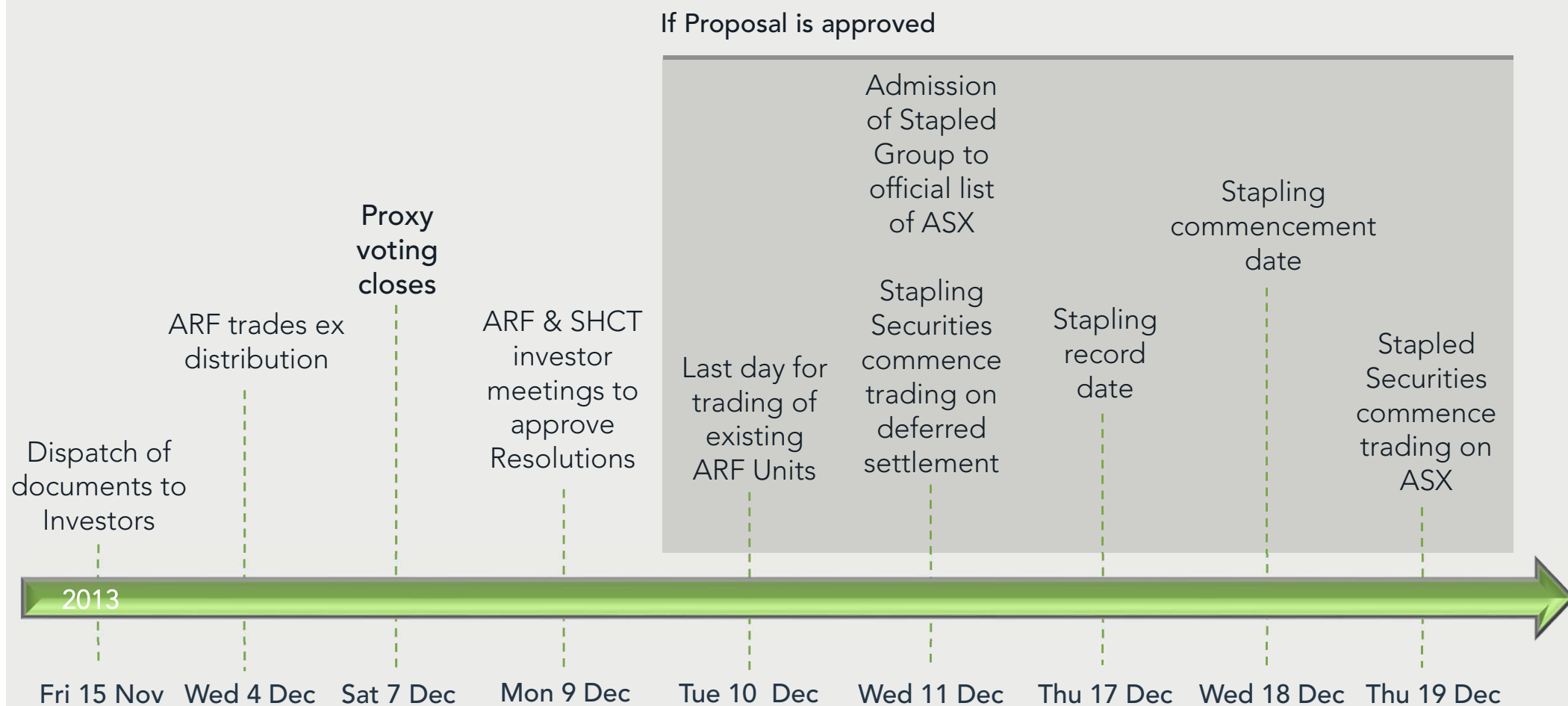
Disadvantages

- × Increases gearing ratio from 10.6% to 23% – 29%. Gearing ratio further increases to 28.9% – 34.9% if Affinity acquisition is completed. ARF's target gearing ratio is 35% to 45%.
- × Dilution of NTA by 1.2 – 2.2% due to Redemption Offer and Transaction Costs.

Risks

An investment in the Stapled Group will be subject to risks summarised on page 16 of the Notice of Meeting and Section 5 of the PDS, including concentration, tenant, regulatory and other risks.

Indicative timetable



Dates are indicative only and subject to change.

Adjusted Dec quarter
distribution paid mid February

2 Redemption offer pricing

The Redemption Price (\$1.15) was determined having regard to:

- The 30 June 2013 NTA per unit of both ARF and SHCT (both approximately \$1.02).
- The recent volume weighted average trading price of ARF on ASX prior to announcement on 1 November 2013 (26 Nov 2013 closing price: \$1.20).
- A competitive offer price in the current market for acquiring the SHCT portfolio.
- The benefit to ARF investors from the increase in forecast FY14 earnings.
- The overall benefits of the Stapling Proposal to ARF Investors.

Equivalent price versus valuation	\$m
Effective transaction value	59.4
Less usual stamp duty	(3.1)
Less typical transaction costs	(0.2)
Equivalent purchase price	56.1
Independent valuation (30/6/12)	54.7
Equivalent premium	2.6%
Equivalent passing yield	8.6%

- The equivalent portfolio purchase price of \$56.1m represents a 2.6% premium on the current carrying value of \$54.7m, and a passing yield of 8.6%.

2 Independent Expert Opinion

- Independent expert opinion sought from respected accounting firm, Moore Stephens.
- The Independent Expert is of the opinion:
“ARF Unitholders will be better off if the Proposed Transactions are implemented than if they are not. The Proposed Transactions are in the best interest of, and are fair and reasonable to, ARF Unitholders”.

Refer to the full independent expert’s report in the Explanatory Memorandum for the scope and methodology and other important details in the report.

3 SHCT – the right fit



3 6 properties located in the Sydney area



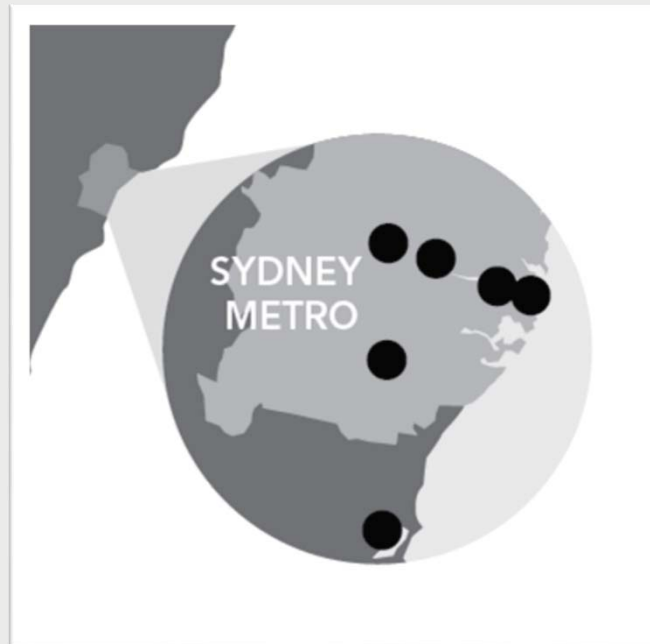
Wentworthville Medical Centre



Leichhardt Medical Centre



Campbelltown Medical and Dental Centre



Bondi Junction Medical and Dental centre



Mt Druitt Medical Centre



Dapto Medical centre

3 Relatively long leases, 100% occupied

SHCT Portfolio as at 30 June 2013

Property	NLA (m ²)	Occupancy	WALE (Years)	Passing Yield	Adopted Val
Bondi Junction Medical & Dental	1,139	100%	9.5	7.8%	\$12.0m
Campbelltown Medical & Dental	1,622	100%	7.0	10.2%	\$7.8m
Dapto Medical Centre	2,196	100%	9.9	9.1%	\$8.2m
Leichhardt Medical & Dental	2,036	100%	9.2	8.5%	\$12.3m
Mt Druitt Medical Centre	1,490	100%	9.3	9.4%	\$6.7m
Wentworthville Medical Centre	1,652	100%	9.5	9.0%	\$7.7m
Total	10,135	100%	9.0	8.9%	\$54.7m

- All assets are fully leased to Primary Health Care Limited with a weighted average lease expiry of 9.0 years as at 30 June 2013.
- As at 30 June 2013, the six assets of SHCT were independently valued at \$54.7 million.

3 High credit tenant providing essential services

Primary Health Care

Strong operational performance

- Primary Health Care is a proven listed company in the S&P/ASX 100 Index.
- Market capitalisation of approximately \$2.5 billion.
- For FY13, EBITDA increased 9.7% to \$385.1 million, net profit before after tax increased by 29% to \$150.1 million and earnings per share increased 28% to 29.9 cents per share.
- Patient attendance growth of 7.5% per annum.

Long-term value

- Provides a comprehensive range of services and facilities to general practitioners, healthcare providers and specialists who conduct their own practices and businesses at their 87 facilities.
- Patients are attracted to their large-scale facilities, extended hours (open 365 days, 7am to 10pm, no appointment required) and one-stop services.
- Primary's model is affordable, Medicare is bulked billed and non-Medicare services are competitively priced.
- More than half of Primary's large-scale centres have been operational for 6 to 25 years.
- Wide range and high retention of GP's (94.2% for FY2008 to FY2011)

Primary Healthcare has never closed a large-scale centre

3 Consistent with ARF investment strategy

The SHCT portfolio of healthcare assets is consistent with ARF's strategy and investment criteria:

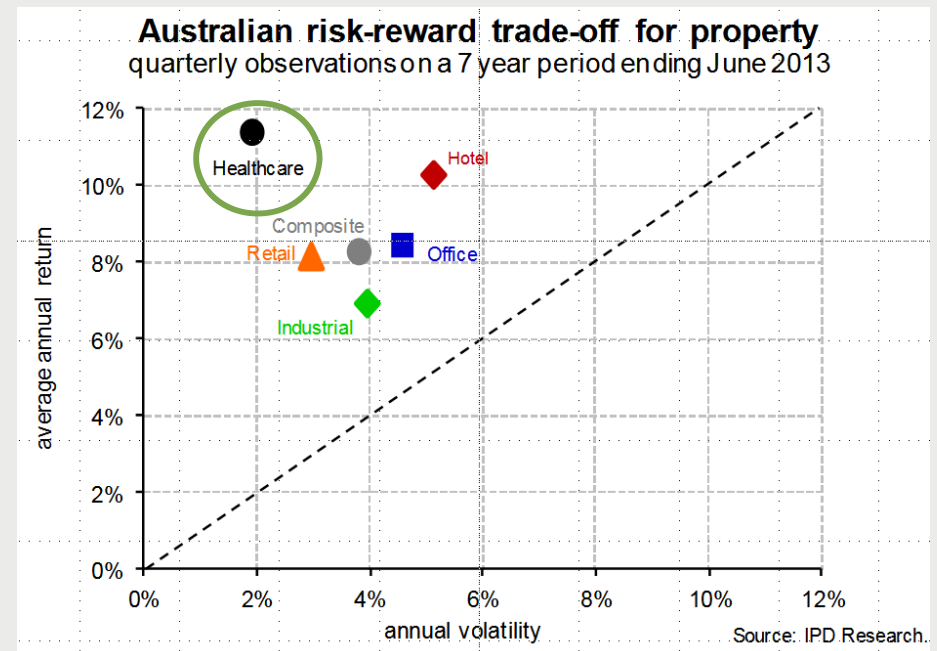
Sectors	Characteristics	SHCT – A good fit
Childcare Healthcare Education Govt & high quality tenants	Relatively long remaining lease terms.	✓ The average WALE of the portfolio is 9 years.
	Premises that have strategic importance to the operations of the tenant.	✓ The properties are all purpose build medical centres.
	High credit quality tenants.	✓ Tenanted by Primary Health Care. Primary is one of Australia's leading medical operators. It is an ASX100 listed company with a market cap of \$2.5 billion.
	Tenants responsible for all, or substantially all the statutory and operating outgoings.	✓ The tenant is responsible for all statutory outgoings, operating outgoings and costs including insurance, land tax (on a multiple holding basis), repairs & maintenance (other than of a structural nature).
	Reversionary capital value risk can be managed.	✓ The goodwill value of the business is linked to the term of the lease which encourages the tenant to renew the lease.

3 Growing sector outperforming property peers

The demand for healthcare services is growing, driven by:

- The ageing of Australia's population – age 65+ forecast to rise from 14% to 23% by 2056.
- Steady growth of private health insurance – 46.8% of Australian population held private health insurance in 2012, growth of 68.9% over the last 10 years.
- Government funded Medicare ensures all Australians have access to free or low-cost healthcare.

Healthcare has outperformed the traditional commercial property sector over many years



Highest performing sector with the lowest risk over past 7 years.

3 Similar lease terms to ARF

The SHCT portfolio has lease terms similar to ARF's Childcare Centres:

	ARF Childcare Centres	SHCT Medical Centres
Lease term	WALE 8.3 years.	WALE 9.0 years.
Tenant covenant	65.2% exposure to Goodstart (not-for-profit).	100% exposure to Primary Health Care who are a top ASX100 entity with a market capitalisation of \$2.5 billion.
Outgoings recovery	All outgoings recovered.	All outgoings recovered.
Capital expenditure recovery	All capital expenditure recovered.	Except of a structural nature.
Option Notice Period	5 years.	18 months.
Rent Review	Higher of 2.5% or cpi.	Mixture of cpi and fixed increases (2-3%).
Business operating data	Yes.	No.

4 Affinity acquisition

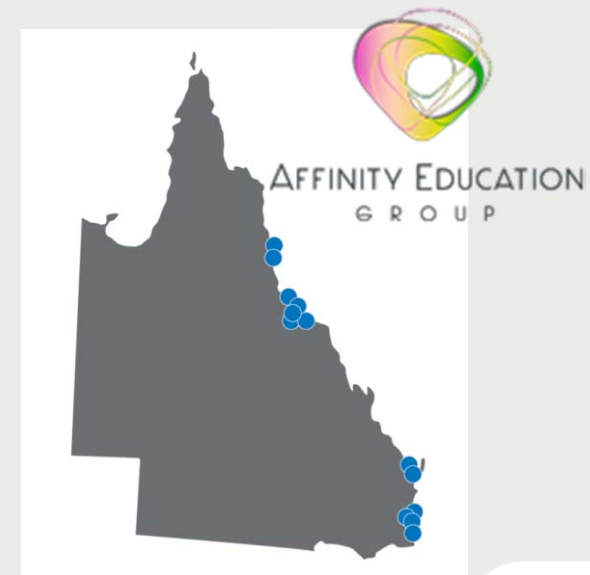


Acquisition overview

- Conditional acquisition of 14 childcare centres situated in Queensland for \$24.0m on a 9.05% yield.
- Childcare centres are purpose built and to be fully leased to Affinity on 15 year leases on ARF standard terms.
- Affinity is seeking to raise \$75.5 million from it's initial public offering which is fully underwritten by CBA Equities Limited.
- Settlement is expected in December 2013.

Refer to ASX announcement dated 6 November 2013.

Number of centres	14
% of the ARF childcare portfolio (by value as at 30 June 2013)	9.3%
% freehold	100%
% purpose built	100%
Total approved childcare places	1,305
Average lease term remaining	15 years
Passing net income yield (pre acquisition costs)	9.05%



- Affinity is a newly established provider of education and care for children aged 6 weeks to 12 years.
- It has initially contracted to acquire 57 child care centres and the management rights for a further 11 centres.
- Its stated strategy is to grow its business and earnings through:
 - Organic growth; and
 - A considered and disciplined acquisition strategy.
- The Board and senior management team have relevant experience with:
 - Justin Laboo leading the senior management team as CEO, previously CEO of Forest Place Group (listed company in aged care sector); and
 - Stuart James leading the Board as Chairman, currently a Non-executive Director of Green Cross Limited (ASX listed veterinary company).
 - Gabriel Giufre, the Operating Officer and Executive Director has 14 years experience in the child care sector.
- On listing, Affinity will have low levels of debt and conditional access to a \$20 million Acquisition Facility.
- Refer to the Affinity corporate website for more details: www.affinityeducation.com.au

5 Combined portfolio



5 Increased size and scale

		ARF		SHCT	Affinity	Combined
	Leased childcare centres	Vacant childcare centres	Childcare sites (development)	Medical centres	Leased childcare centres	
No of properties	167	6	4	6	14	197
Valuation	\$226.7m	\$5.7m	\$2.5m	\$54.7m	\$24.0m	\$313.6m
Net Income	\$21.2m	–	–	\$4.8m	\$2.2m	\$28.2m
Yield	9.3%	–	–	8.9%	9.05%	#9.2%
Occupancy (by valuation)	100%	–	–	100%	100%	97.4%
WALE (by income)^	8.3	–	–	9.0	15.0	9.0

^Excludes office component

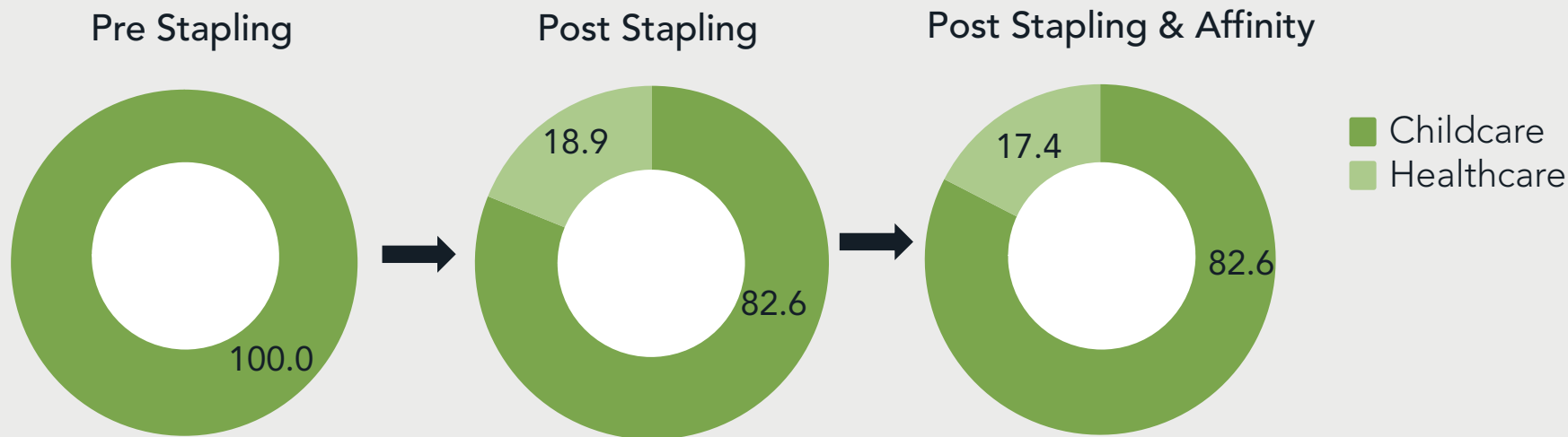
Excludes vacant centres and development sites

Combined portfolio features

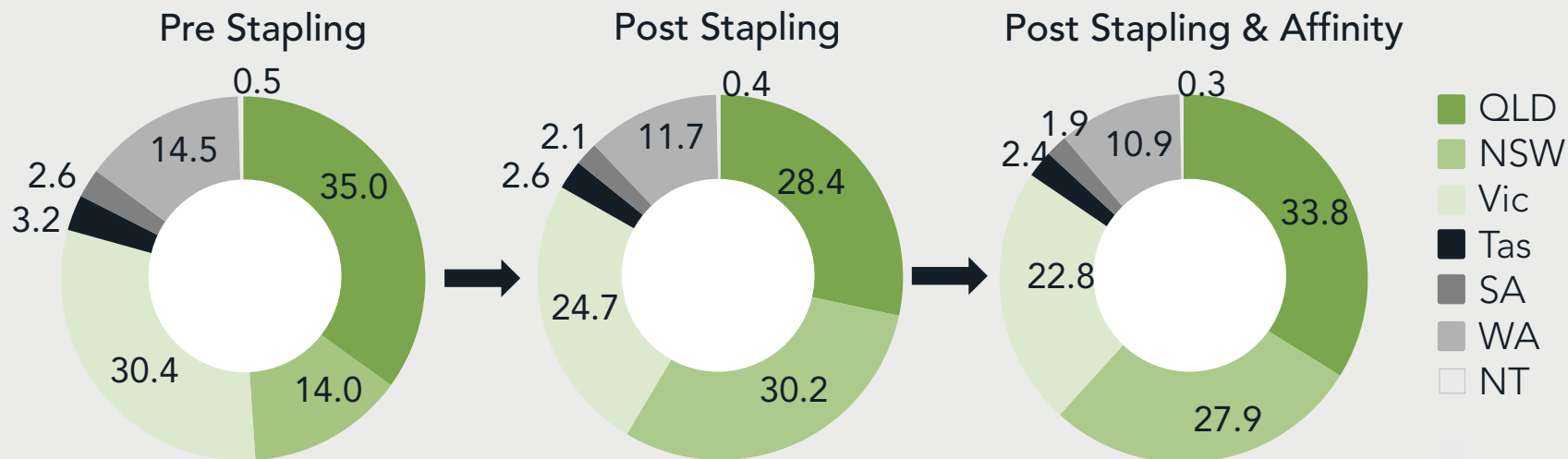
- Larger portfolio of 197 properties valued at \$313.6m.
- High 9.2% yield on childcare and medical centres.
- Improved WALE of 9.0 years.
- Improved sector, geographic and tenant diversification.
- Improved lease expiry profile.

5 Significant portfolio diversification

Sector Diversification (%) – Healthcare exposure

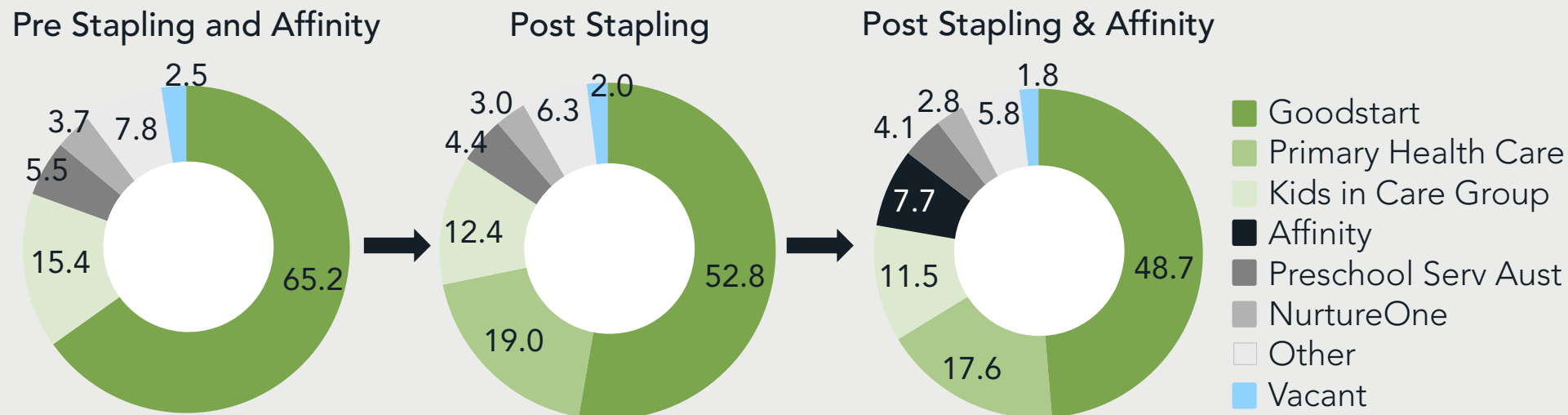


Geographic Diversification (%) – increased exposure to NSW

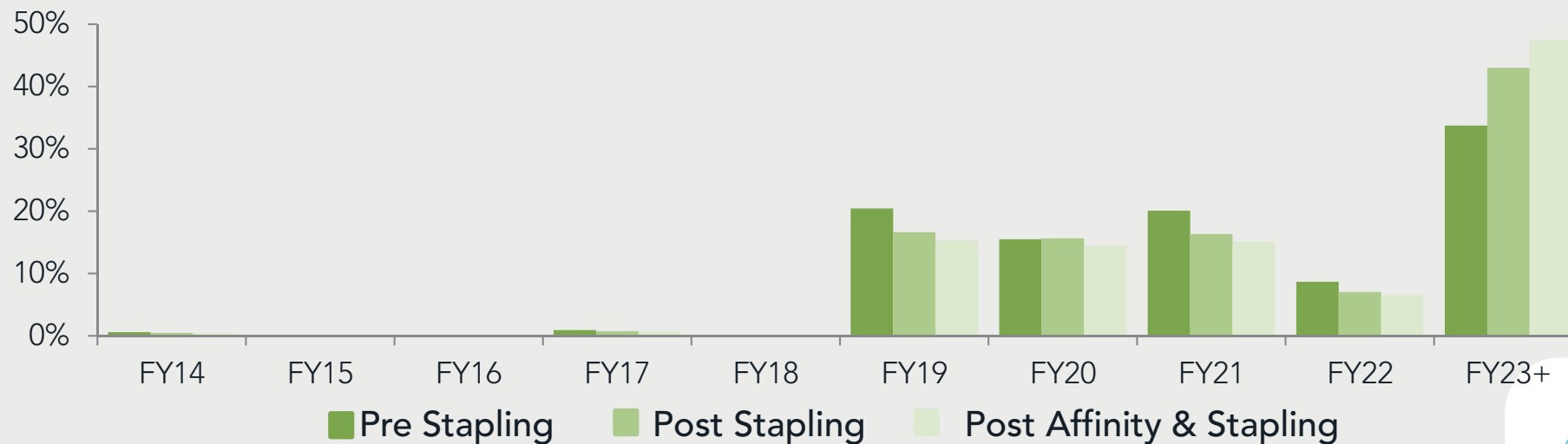


5 Improved lease expiry profile

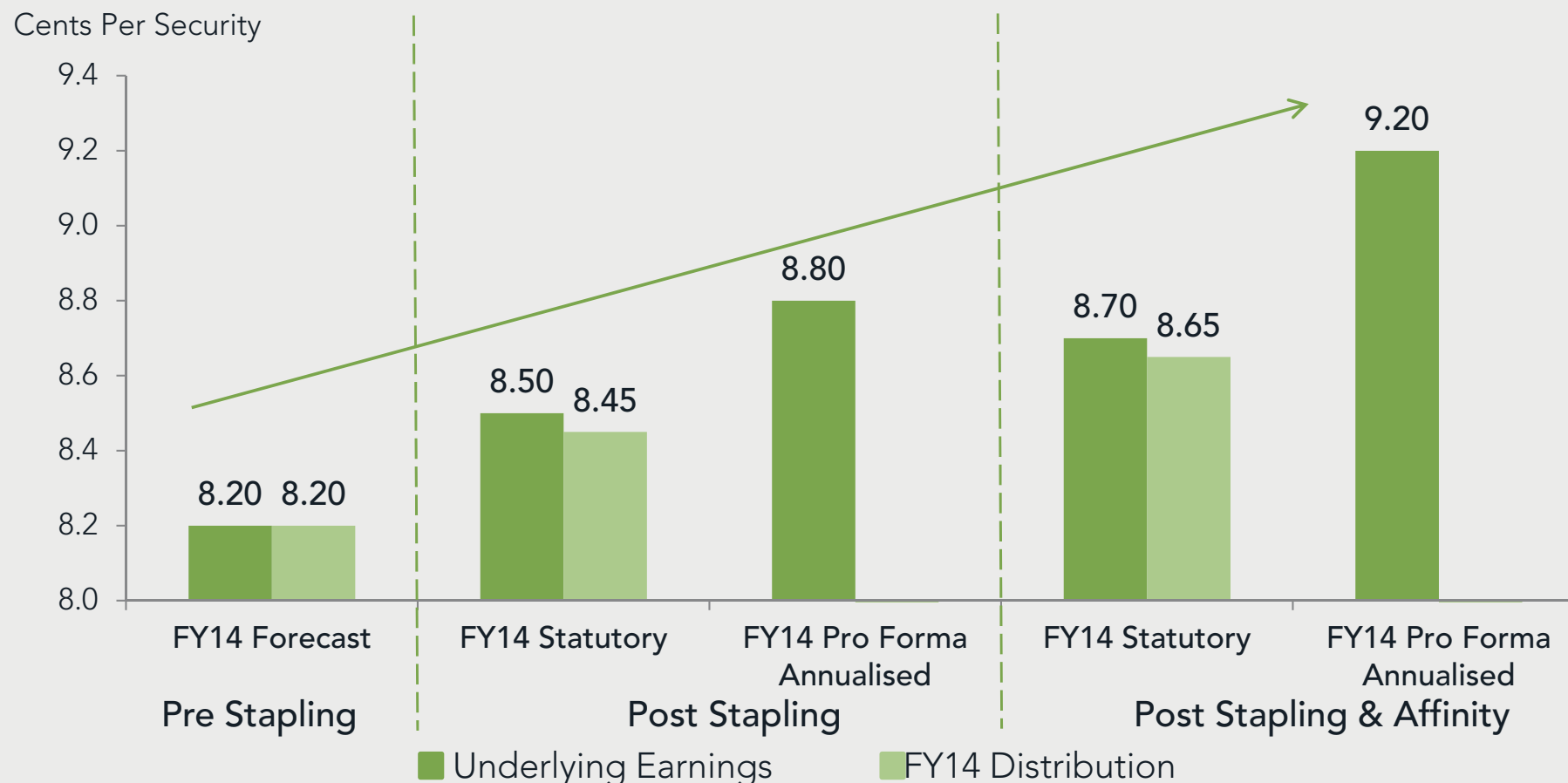
Tenant Diversification (%) – exposure to Primary Health Care and reduced exposure to Goodstart



Lease Expiry Profile (%) – improved profile



5 Increased underlying earnings



- Under the Stapling Proposal, FY14 Statutory distribution forecast increases by 3.0% to 8.45 cpu. FY14 Pro Forma forecast underling annualised earnings increases by 7.3% to 8.8 cpu.
- Under both the Stapling Proposal and Affinity acquisition, FY14 Statutory distribution forecast increases by 5.5% to 8.65 cps. FY14 Pro Forma forecast underling annualised earnings increases by 12.2% to 9.2 cps.
- Refer to the PDS for Forecast assumptions.

6 Board Recommendation

The Arena Board considers the Proposal to be in the best interests of ARF Investors (in the absence of a superior proposal) and unanimously recommends ARF Investors vote in favour of both resolutions.

The Arena Board considers the Proposal to be in best interests of ARF Investors because the advantages outweigh the disadvantages and risks.

Please contact us if you have any queries.

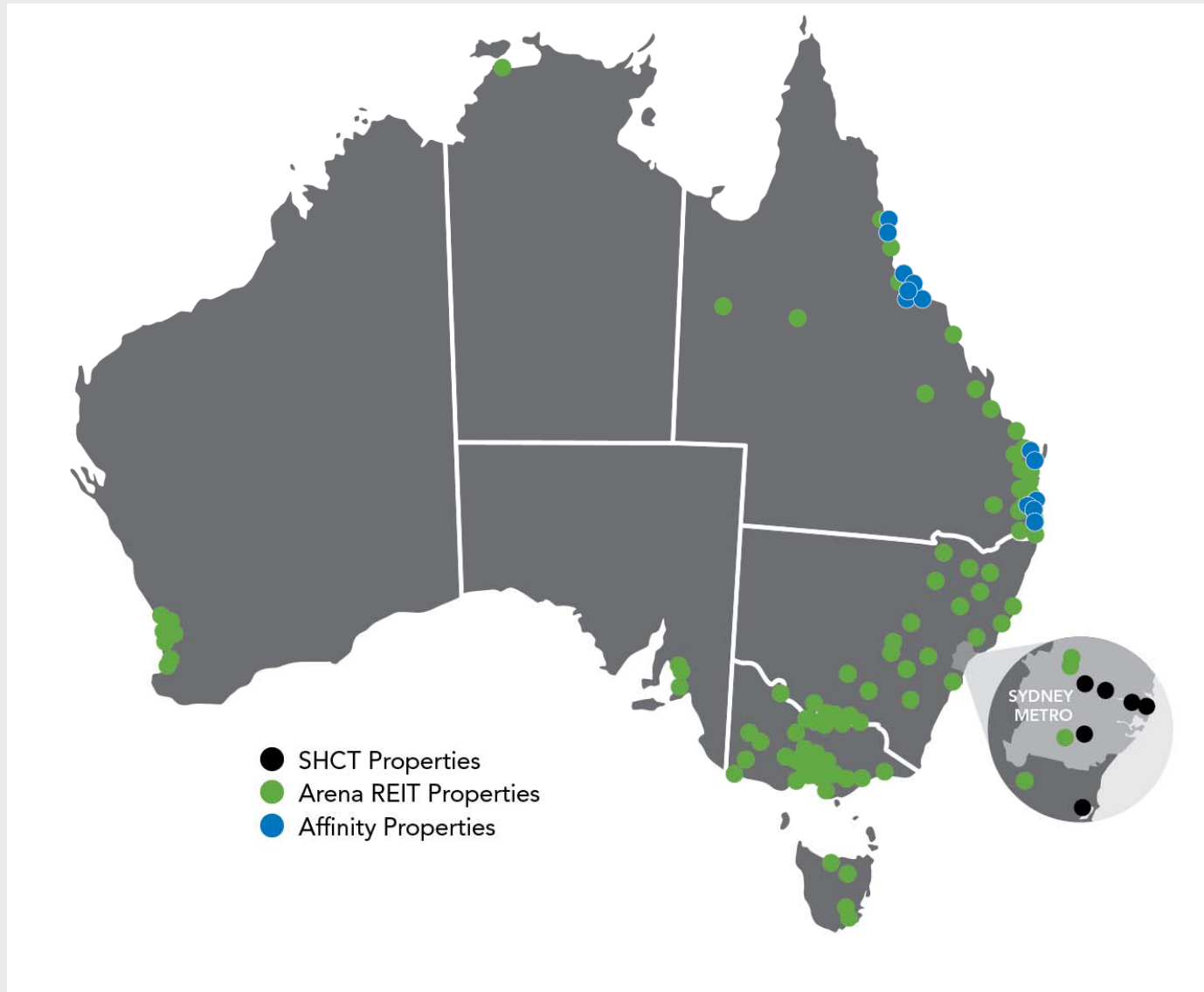
7 Questions & Answers



8 Appendices



8 Location of properties Post Stapling and Affinity



8 Income Statement

\$ million	Pre FY14 Forecast	Post Stapling		Post Stapling & Affinity	
		FY14 Pro Forma Forecast ¹	FY14 Statutory Forecast ²	FY14 Pro Forma Forecast ¹	FY14 Statutory Forecast ²
Income					
Net property income	20.9	25.7	23.4	27.8	24.4
Expenses					
Management fees	(1.9)	(2.5)	(2.2)	(2.7)	(2.3)
Other operating expenses	(0.5)	(0.6)	(0.6)	(0.8)	(0.6)
Net interest and borrowing costs	(1.6)	(3.7)	(2.8)	(5.0)	(3.3)
Distributable Income³	16.9	18.9	17.8	19.3	18.2
Straight-lining of rental income ^{4,5}	0.3	0.3	0.3	0.3	0.3
Stapling transaction costs	–	–	(1.2)	–	-1.2
Net operating profit excluding fair value adjustments	17.2	19.2	16.9	19.6	17.3
Underlying Earnings per Security (cents)	8.2	8.8	8.5	9.2	8.7
Distribution per Unit (cents)	8.2		8.45		8.65
Tax deferred component⁶	28%		26%		26%

¹ Represents the annualised pro forma FY14 forecast income statement for the Stapled Group assuming the Proposal occurred on 1 July 2012.

² Assumes the Proposal occurs on the Stapling Record Date and therefore includes 12 months of contribution from ARF, but only approximately 6 months contribution from SHCT.

³ Distributable income represents net income from which cash distributions will be determined. In addition to the items noted here, this excludes the movement in fair market value from the revaluation of interest rate swaps and investment property and asset acquisition costs.

⁴ Represents the non-cash income from the straight-lining of future fixed rental increases per Australian Accounting Standards which are excluded from distributions to investors.

⁵ ARF's and the Stapled Group's net cash flow from operating activities is expected to be substantially the same as net operating income over the course of a reporting period as operating cashflow generally occurs within the 30 day period prior to or following the relevant transaction being recognised in the income statement.

⁶ Percentage of distribution expected to be tax deferred.

8 Balance Sheet

As at 30 June 2013 \$ million	Pre		Pro Forma Adjustments		Post Stapling	Post Stapling & Affinity	
	ARF Pro Forma	SHCT Historical	SHCT Deferred Fees ¹	Stapling Proposal ²	Stapled Group Pro Forma	Affinity ³	Stapled Group Pro Forma
Cash	4.4	1.0	–	–	5.4	–	5.4
Trade and other receivables	1.8	0.3	–	–	2.1	–	2.1
Investment properties	236.5	54.7	–	0.5	291.7	25.5	317.2
Total Assets	242.7	56.0	–	0.5	299.2	25.5	324.7
Trade and other payables	3.3	0.5	–	–	3.8	–	3.8
Deferred Management and Performance Fees	–	3.4	(3.4)	–	–	–	–
Distribution payable	3.3	0.7	–	–	4.0	–	4.0
Borrowings (non-current)	26.0	23.7	3.4	24.6	77.7	25.5	103.2
Interest rate swaps	0.1	0.1	–	–	0.2	–	0.2
Total Liabilities	32.7	28.4	–	24.6	85.7	25.5	111.2
Net Assets	210.0	27.6	–	(24.1)	213.5	–	213.5
Securities on Issue (millions)	206.3	27.0			213.5		213.5
NTA per Unit	\$1.02	\$1.02			\$1.00		\$1.00
Gearing Ratio	11%	42%			26%		32%

¹ The Stapling Proposal provides for SHCT's existing Deferred Management and Performance Fees liability to become payable on the Admission Date. SHCT will use the Debt Facility to fund the payment.

² Represents the debt funding for the assumed redemption of the entitlement to 19.8 million Stapled Securities under the Redemption Offer (\$22.9 million), payment of transaction costs (\$1.2 million) and asset transaction fees (\$0.5 million) associated with the Stapling Proposal.

³ Represents the Affinity portfolio including stamp duty and other acquisition costs. ARF will use its Debt Facility to fund the acquisition.

8 Why invest in childcare?

Strong demand fundamentals driving growth in demand for childcare

More children

+1%

per annum
projected growth
in number of
children 0 – 4 years



Higher
workforce
participation

53%

Of children attend
childcare when both
parents work & live
together



More children
in care

+64%

growth in children aged 0-4
using formal childcare
between 1996 to 2011

More hours in care

+70%

Growth in average weekly
hours of a child attending
day care between 2005
to 2012

Important notice

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Capitalised terms in this document have the meaning given to them in the Product Disclosure Statement dated 1 November 2013, unless a contrary intention appears.

Refer to Arena's website www.arenainvest.com.au and ASX announcements for updated information in relation to the Proposal and the proposed Affinity transaction.