Arena REIT (ASX code: ARF)

Half Year Results to 31 December 2013

Improved earnings and diversified portfolio risk

27 February 2014

Arena

Presenters

Bryce Mitchelson

Joint Managing Director

- Appointed to the Board in April 2010.
- Previously held positions with Centro Properties Group and Heine Management Limited.

James Goodwin

Joint Managing Director

- Appointed to the Board in January 2012.
- Previously held senior positions with Becton Property Group, Centro Properties Group and Freehills.

Vin Harink

Senior Portfolio Manager

- Joined Arena in 2009.
- Previously CEO of Austock Property Funds Management.

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Agenda

1 Results overview

Bryce Mitchelson

1.1 Key achievements

A busy first half where ARF took advantage of several value adding activities:

Strategy implementation	Broadened investment diversification into healthcare through addition of 6 medical centres.
Outperformed IPO earnings forecast	FY14 earnings ahead of IPO distribution forecast at 8.75* cents (from 8.2), equating to 9.3 cents annualised.
Broadened tenancy relationships	Added Affinity Education, G8 Education and Primary Health Care. Goodstart reduced from 67% to 48%.
Actively remixed the childcare portfolio	Leased 3 vacant properties, acquired 3 development sites and sold 2 vacant centres.
Driven portfolio performance	Average rent increase on reviews during the period of 2.8% and net revaluation growth of 3.6% on book value.

Total assets increased by $90.5 million to $331.8 million primarily driven by medical and childcare centre transactions.

* On a status quo basis.

1.2 Financial highlights

Income Statement

Half Year Period	31 Dec 2013	31 Dec 2012	Change	Change %
Statutory net profit	$12.6m	$6.8m	+ $5.8m	+85%
Distributable income	$8.5m	$5.1m	+ $3.4m	+ 67%
Distributable income per security (cents)	4.13	3.84	+ 0.29	+7.6%
Distributions per security (cents)	3.75*	3.75	–	–

* December Quarter Distribution only for the period prior to stapling (up to 10 December 2013). March 14 quarter distribution will be for the period 11 December 2013 to 31 March 2014.

Balance Sheet

As at	31 Dec 2013	30 Jun 2013	Change $	Change %
Total assets	$331.8m	$241.3m	+ $90.5m	+38%
Balance sheet gearing	24.8%	10.4%	+14.4%	+138%
Net asset value	$216.9m	$210.1m	+ 6.8m	+3.2%
ASX market capitalisation	$251.7m	$210.4m	+ $41.3m	+20%
Net tangible asset value per security	$1.03	$1.02	+ $0.01	+1%
Securities on Issue	211.5m	206.3m	+5.2m	+2.5%

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1.3 Delivered on strategy to drive earnings growth

Objective	Sectors	Preferred characteristics	Progress
To generate an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.	Childcare **83%***	Relatively long remaining lease terms.	Increased WALE to 8.7 years (30 June: 8.3 years).
		Premises that have strategic importance to the operations of the tenant.	Diversified into healthcare.
	Healthcare **17%***	High credit quality tenants.	Improved tenant profile with Primary Health Care and Affinity and G8 Education, each ASX listed. Affinity transaction Dec 2013.
	Education **0%***	Tenants responsible for all, or substantially all of the statutory and operating outgoings.	All new leases are on standard terms.
	Govt. & other high credit quality tenants **0%***	Reversionary capital value risk can be managed.	Increased metropolitan property exposure.

* Value of investment property portfolio.

2 Financial results

James Goodwin

2.1 Income statement

For the Half Year Period $ million	31 Dec 2013	31 Dec 2012	Change %	Commentary
Income				
Lease rental	11.37	10.68	+6.4%	Asset additions in Dec 13, Average rent increase on reviews during the period of 2.8%.
Other	0.03	0.38	-92%	Investment in AET sold in Dec 12
Total Operating Income	**11.40**	**11.06**	**+3.1%**	
Expenses				
Direct property expenses	(0.45)	(0.55)	-18%	
Management fees	(1.02)	(1.21)	-16%	Reduced fee arrangements applying from June 13
Administration expenses	(0.38)	(0.54)	-28%	
Finance costs	(1.02)	(3.69)	-72%	Debt refinanced with improved margins and reduced gearing
Distributable income	**8.53**	**5.08**	**+68%**	
Straight-line rental income	0.45	0.37	+22%	
Asset revaluations	4.44	1.56	+185%	
Change in fair value of derivatives	(0.04)	(0.26)	-84%	
Other	(0.74)	–		Stapling transaction costs
Net statutory profit	12.64	6.8	87%	
Distributable income per security (cents)	4.13	3.84	+7.6%	
Distributions per security (cents)	3.75	3.75	0%	Part quarter distribution for 31 December 2013

2.2 Balance sheet

$ million	Dec 2013	June 2013	Change	Commentary
Cash	5.5	5.0	+10%	
Trade and other receivables	1.2	1.4	-14%	
Investment properties	325.1	234.9	+38%	Healthcare & Childcare asset additions
Total assets	**331.8**	**241.3**	**+38%**	
Trade and other payables	4.4	3.3	+33%	
Distributions payable	3.5	3.3	+6.1%	
Borrowings	81.9	24.5	+234%	Funding for new asset additions
Unit Redemption	25.1	–	+100%	Stapling redemption offer settled in Jan 2014
Interest rate swaps	0.1	0.1	–	
Total liabilities	**115.0**	**31.2**	**+268%**	
Net assets	**216.9**	**210.1**	**+3.2%**	
Number of securities on issue (million)	211.5	206.3	+2.5%	
Net tangible asset value/security ($)	$1.03	$1.02	+1%	
Gearing ratio (%)	24.8%	10.4%	+14%	Gearing 32.4% post settlement of stapling redemption offer[2]

1. Gearing calculated as drawn Borrowings / Total Assets.
2. Redemption paid to Sydney Health Care Trust investors early January 2014.

2.3 Capital management

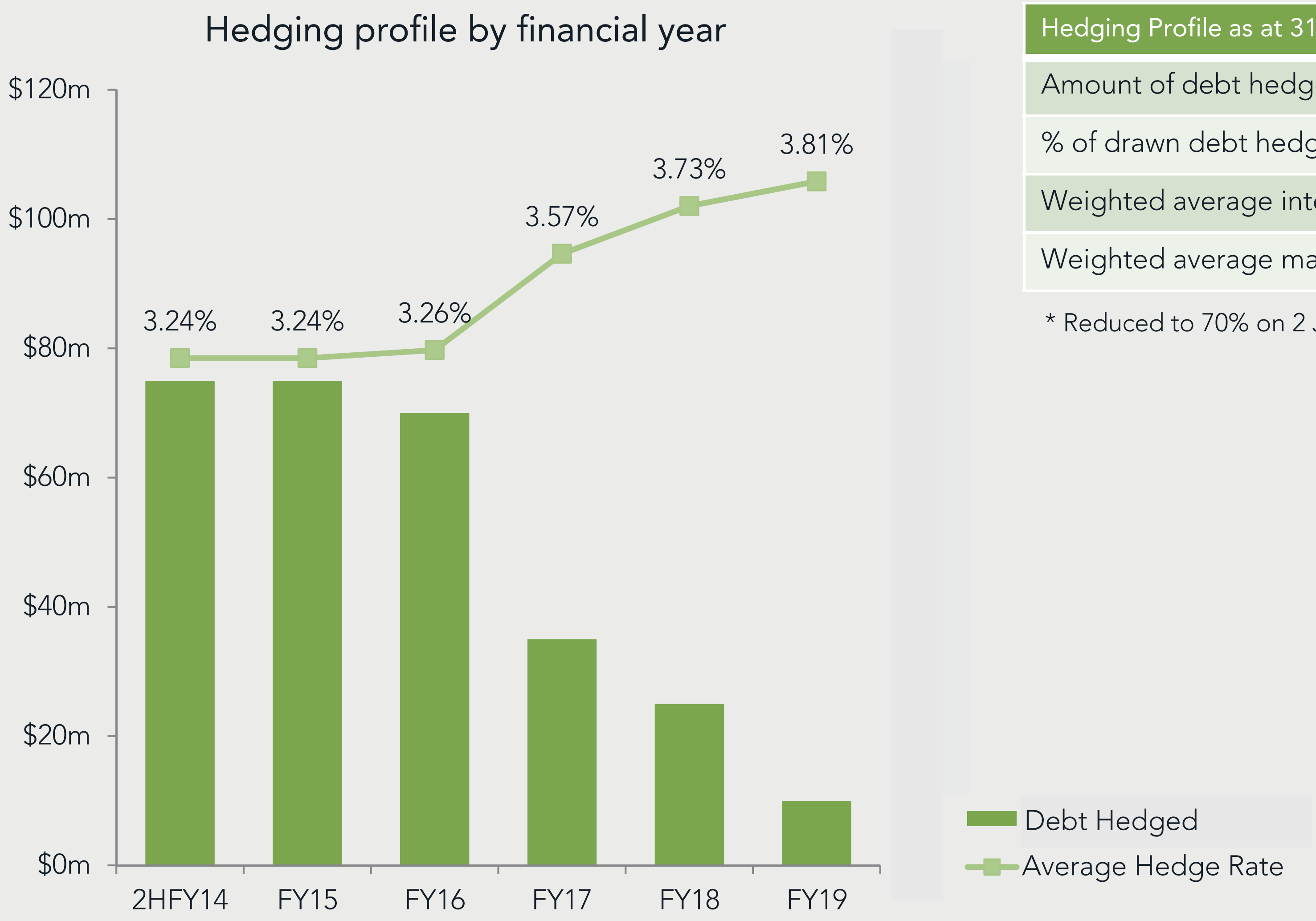
Key Debt Metrics	Dec 13	June 13
Facility limit	$140m	$110m
Drawn amount	$82.3m	$25.0m
Undrawn amount	$57.7m	$85.0m
Remaining facility term	2.5 years	3.0 years
Interest rate hedging cover	91%	100%
Weighted average hedge expiry	3.1 years	3.0 years
Gearing	24.8%	10.4%
	Dec 13	Dec 12
Interest cover ratio	10.6x	2.4x
Weighted average cost of debt at 31 Dec	5.1%	6.9%

1. Gearing Calculated as Borrowings / Total Assets.
2. Post settlement of the stapling unit redemption offer in January 2014 the drawn amount increased to $107.5 million, gearing increased to 32.4% and interest rate hedging cover is 70%.

Highlights

- Debt facility limit extended by $30m to fund growth opportunities.
- Arena is currently exploring opportunities to extend ARF's debt maturity profile.
- Gearing based on 100% debt funding of existing developments is 34%.
- Gearing remaining below the target range of 35% to 45%.

2.4 Hedging of interest rate risk



Hedging Profile as at 31 December 2013	
Amount of debt hedged	$75m
% of drawn debt hedged	91%*
Weighted average interest rate of hedges	3.24%
Weighted average maturity of hedges	3.1 years

* Reduced to 70% on 2 January 2014.

3 Portfolio update

James Goodwin and Vin Harink

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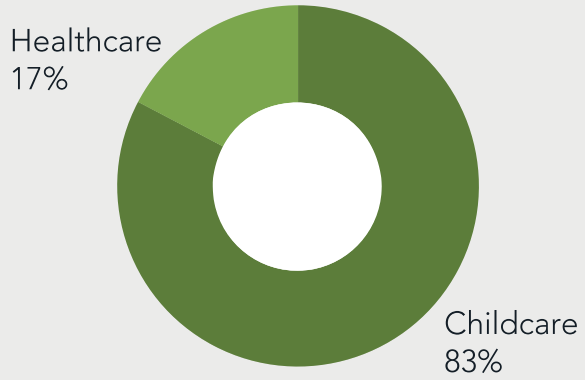
3.1 Key portfolio metrics

	Medical centres	Leased childcare centres	Vacant childcare centres	Childcare sites (development)	Combined
No of properties	6	183	3**	7^	199
Carrying value ($m)	55.3	261.8	3.0	5.0	325.1
Annual rent ($m)	4.9	24.0			28.9
Yield#	8.86%	9.15%			9.10%
Occupancy (by number)	100.0%	100.0%			98.4%
WALE (by income)*	8.5	8.8			8.7

* Excludes office component.
# Excludes vacant centres and developments.
** Leasing term sheets agreed for 2 properties subject to legal documentation.
^ 5 of 7 development sites are pre-leased.

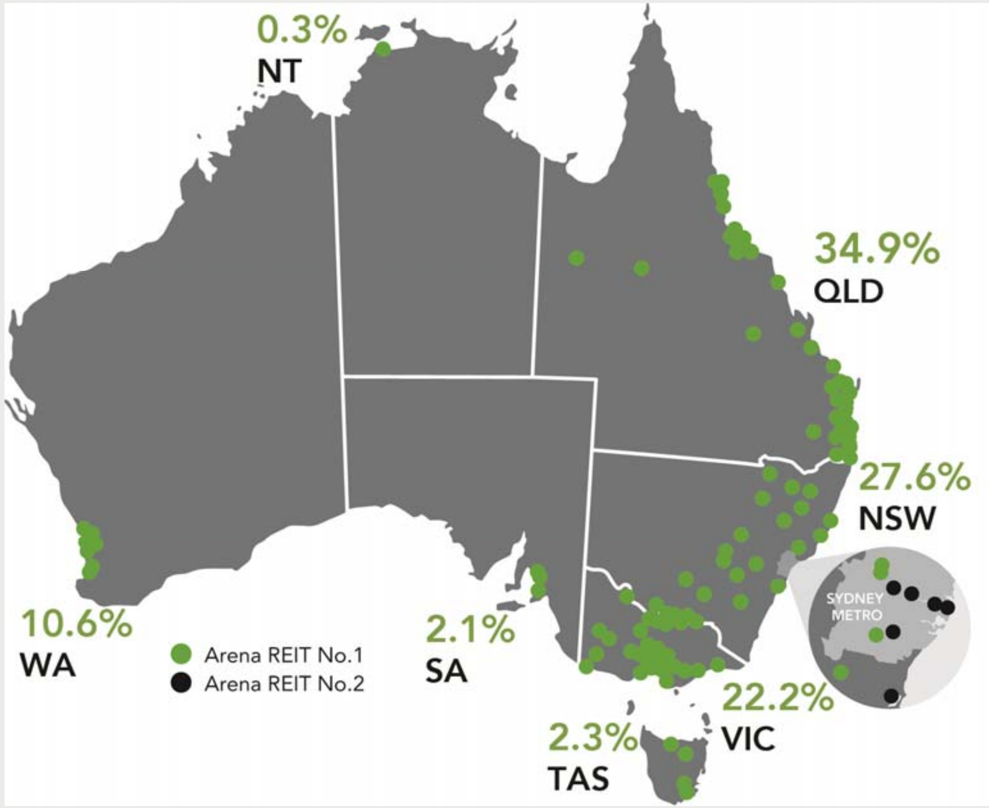
- Since 30 June 2013 the property portfolio has grown by the addition of 18 childcare properties (including 3 development sites) and 6 medical centres.
- The acquisition of 6 medical centres has diversified the Fund into the healthcare sector.
- 2 properties sold.
- 100% freeholds.

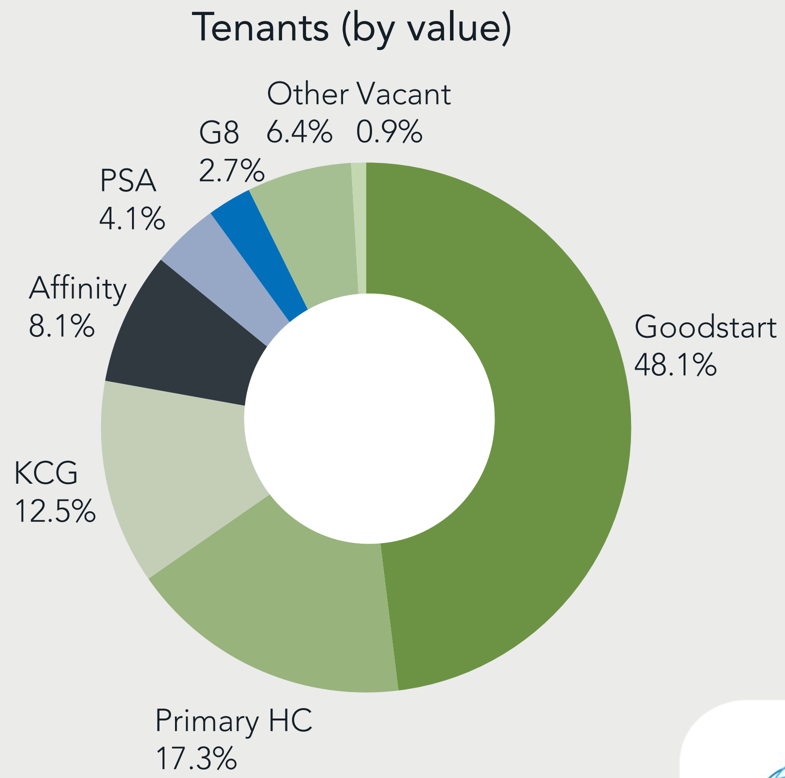
Sector Diversification (By Value)



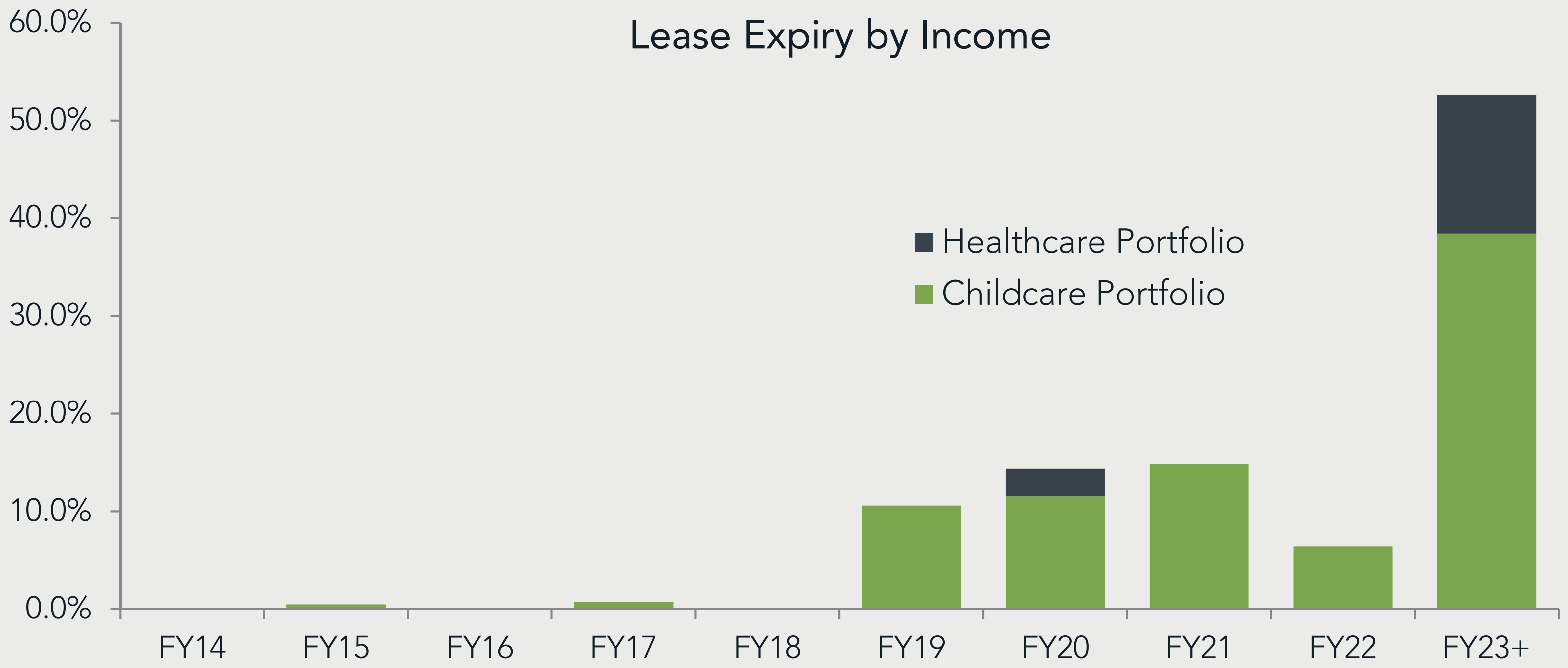
Diversified by geography and tenant

- Greater geographic diversity with NSW presence increasing from 14.1% to 27.6%.
- The addition of properties and the assignment of leases has seen the tenant profile change with the addition of ASX listed Primary Health Care, Affinity Education Group and G8 Education.
- As a result the Goodstart Early Learning share of the portfolio has declined to 48.1%.





3.3 Long lease maturity profile



- A lease for office space at Murarrie expiring in December 2013 was extended for a further 12 months to December 2014.
- 15 new operating childcare centres were acquired, leased for 15 year initial terms.
- Options to extend the leases for a further term of 5 years were exercised for 11 of 19 properties in the six months to December 2013.
- No significant lease expiry until FY19.

3.4 Revaluation uplift

Portfolio overview (as at 31 December 2013)	Number of assets	Number with Valuation Change	Carrying value ($'000)	Movement	Percentage Movement
Properties subject to independent valuation	27	27	35,270	1,665	4.95%
Properties subject to directors valuation	77	77	108,730	3,290	3.12%
Properties subject to valuation adjustment	**104**	**104**	**144,000**	**4,955**	**3.58%**
Properties with no valuation adjustment	79	–	117,773	–	–
Childcare centres (including Murarrie Office)	**183**	**104**	**261,773**	**4,955**	**–**
Vacant centres	3	–	3,000	–	–
Development land and WIP	7	–	5,025	–	–
Childcare portfolio	**193**	**104**	**269,798**	**4,995**	**–**
Healthcare portfolio	**6**	**–**	**55,259**	**–**	**–**
Total portfolio	**199**	**104**	**325,057**	**4,995**	**–**

$4.96 million

Revaluation gain

- 27 Properties independently valued at 31 December 2013, resulting in a valuation uplift of $1.67 million (5.0%) over carrying value and $2.64 million (8.1%) over last independent valuation
- A further 77 centres subject to Directors' valuation movement at 31 December 2013, resulting in a further valuation uplift of $3.29 million (3.1%) over carrying value and $4.92 million (4.7%) over last independent valuation.
- The valuation movement results in an increase in NTA value of 2.34 cents per unit taking NTA to $1.03 per Security.

3.5 High quality childcare portfolio

Portfolio overview (as at 31 December 2013)	December 2013	June 2013	% change
Leased Childcare Centres	183	167	+9.6%
Available for Sale / Lease	3	6	-50%
Development Land	7	4	+75%
Total Properties	**193**	**177**	**+9%**
WALE (Years)	8.8	8.3	+6%
Tenanted occupancy	98.4%	96.5%	+1.9%
*Passing Yield**	9.15%	9.3%	-0.15%
Average Places / leased centres	82.2	80.7	+1.9%
Property portfolio ($'000)	269,798	233,784	+15%
Average Value per Place	$17,316	$16,673	+3.8%
Average rent / leased place	$1,571	$1,546	+1.6%
Rental Growth (like for like)	2.69%	2.5%	+0.19%

* Excludes vacant centres and office suites.

- Average increase in carrying value of 3.6% across properties that were revalued.

- WALE increase as result of acquisitions and options exercised.
- Rental growth of 2.69% based on minimum of 2.5% and CPI increases.
- Increase in average places per centre reflects acquisitions of newer and larger centres.

Property Portfolio Movement	($'000)
Portfolio at 30 June 2013	233,784
Property Acquisitions	30,608
Property Disposals	(310)
Revaluation	4,955
Capital Expenditure	761
Total property value	**269,798**

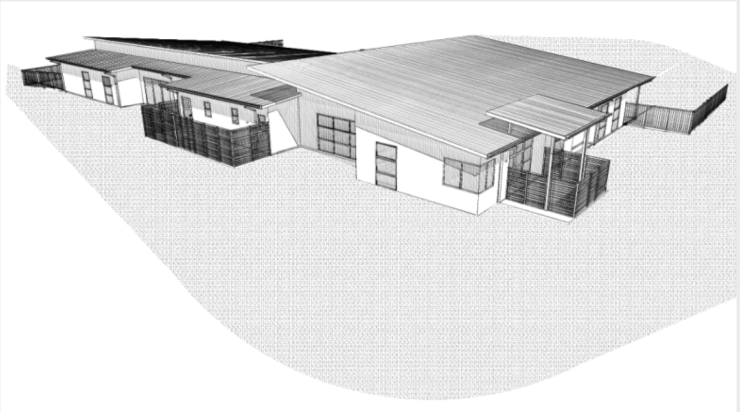
3.6 Childcare state by state yields

Portfolio overview (as at 31 December 2013)	Number of assets	Carrying value ($'000)	Rent (pa) $'000	Passing Yield
Queensland	68	104,549	9,754	9.33%
New South Wales	30	34,160	3,157	9.24%
Victoria	52	70,425	6,393	9.08%
Tasmania	6	7,500	730	9.74%
South Australia	4	6,055	547	9.04%
Western Australia	22	34,355	2,927	9.23%
Northern Territory	1	1,125	118	10.45%
Operating Childcare Centres	**183**	**258,169**	**23,625**	**9.15%**
Vacant Centres (for Lease or Sale)	3	3,000	–	
Total Childcare Centres	**186**	**261,169**	**23,625**	
Murarrie Office Component		3,604	340	9.43%
Development Land and WIP	7	5,025	–	
Total Other Property	**7**	**8,629**	**340**	
Total Property Portfolio	**193**	**269,798**	**23,965**	

- Average passing rental yield on book value for leased childcare centres was 9.15% reflecting an increase in valuation due to some general compression of capitalisation rates, particularly in Queensland and New South Wales.
- Construction of 5 of the 7 development properties will be completed in late 2014 and then contribute to earnings.

3.7 A strong development pipeline

- 4 development sites held as at 30 June 2013.
- Acquired 3 further childcare development sites in the second half of 2013.
- Commencing construction on 4 of these sites now, with another development expected to commence during 2014.
- A second centre is also being built on an existing property.
- These new developments have been pre-leased on an average net passing yield of 9.4% on total cost (including land).
- The total cost of these projects is estimated at $11.8 million with $8 million to complete these projects.



Griffin childcare centre conceptual design.

3.8 Affinity transaction

- 14 childcare centres acquired in December for $24.0 million on a 9.05% passing yield on purchase price.
- All are purpose-built childcare centres situated in metropolitan and regional Queensland.
- All are fully leased on Arena's standard 15 year lease to Affinity Education Group Ltd, a newly established provider of education and care of children aged between 6 weeks to 12 years. Affinity Education Group listed on 9th December 2013 with 57 centres.

As at 31 December 2013	
Number of centres	14
% of the ARF portfolio	8.1%
% 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%

Location of newly acquired properties.

3.9 Medical centre transaction in line with strategy

- Arena REIT stapled with Sydney Healthcare Trust (SHCT) in December 2013 after both ARF and SHCT investors voted overwhelmingly in favour.
- Six large scale multi-disciplinary medical centres.
- Introduced healthcare exposure, a growing sector that has outperformed the traditional commercial property sectors over many years*.
- All assets fully leased to Primary Health Care, an ASX listed company with a weighted average lease expiry of 8.5 years.
- The net passing portfolio income was $4.96 million with a passing yield of 8.96% on book value.
- Increased earnings to ARF investors.

Location of healthcare portfolio.

Leichhardt Medical Centre

Mt Druitt Medical Centre

* IPD Research.

4 Conclusion

Bryce Mitchelson

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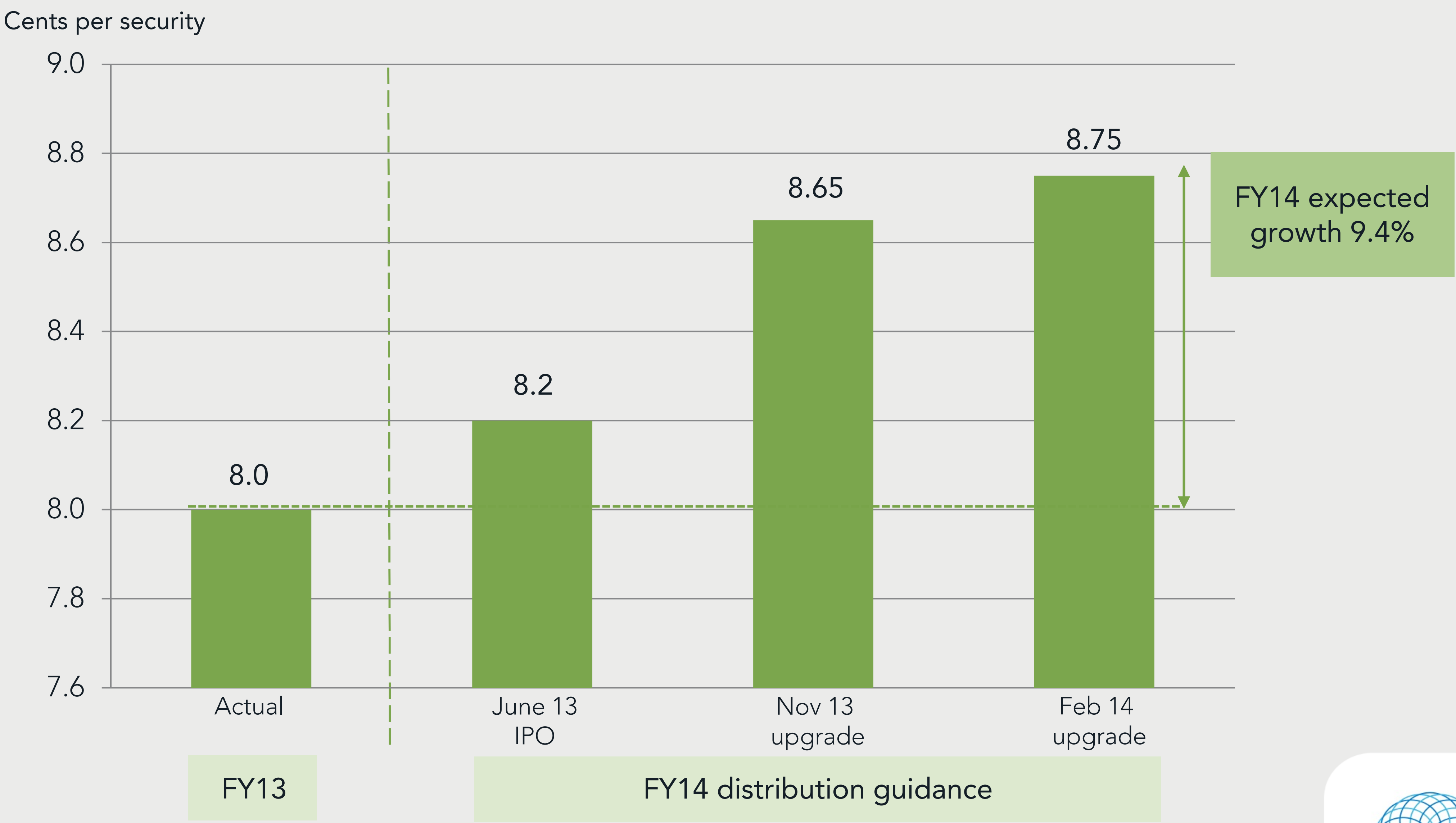
4.1 Outlook

Further growth to be explored	Continue to explore investment opportunities in line with our strategy. Unallocated funds of $22 million available for future investment.
Developments to be completed	5 projects in progress to be completed later this year.
Continue to actively manage the portfolio	We will explore opportunities with existing tenants to improve income stream of the portfolio.
Continue to monitor the property sectors within our strategy	Await the report of the Productivity Commission Inquiry and potential changes to Government funding.
FY14 distribution guidance revised upwards	FY14 distribution guidance increased to 8.75 cents per security on status quo basis which equates to 9.3 cents annualised.

Attractive income yield of 8.45% based upon the annualised 9.3 cents, assuming $1.10 ASX price (as at close on 26 February 2013).

Delivering strong distribution growth



5 Questions

6 Appendices

6.1 Childcare industry update

Productivity Commission Inquiry into Childcare
In November 2013 the Federal Government announced the establishment of a Productivity Commission Inquiry into Childcare and Early Childhood Learning. The Commission is expected to provide a draft report in July 2014.
The Objective of the Inquiry is to identify how the current system can be improved to make it more flexible, affordable and accessible.
The terms of reference includes a requirement that in making any recommendations for Australian Government Policy Setting, the Commission will consider options within current funding parameters.
Long Day Care provides services to 81.1% of all children utilising long day care, family day care and home care and will continue to be at the heart of the provision of services.

Operator Activity
Affinity Education Group Ltd listed in December 2013 with 57 leasehold centres and 10 managed centres.
In September 2013 Navis Capital acquired a majority stake in Guardian Early Learning Group. This was followed by the acquisition of 11 centres in Melbourne and Sydney in early 2014 bringing their portfolio to 52 centres and 27 managed centres.
In February 2014, G8 Education commenced the acquisition of a further 63 leasehold childcare centres to bring their portfolio to 296 with a market capitalisation of $1.2 billion.
Arena is also aware of several other childcare centre operators that are seeking to raise capital and acquire childcare businesses which will inevitably impact on the business valuation multiples for leasehold centres.

For further information

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