Arena REIT
ASX Code: ARF

ASX Announcement
25 February 2015

HALF YEAR RESULT FOR PERIOD ENDED 31 DECEMBER 2014 AND INSTITUTIONAL PLACEMENT

24% growth in distributable income

Arena REIT Limited and Arena REIT Management Limited, as responsible entity of Arena REIT (together **ARF** or **Arena**), today announced Arena's half yearly operating and financial results for the six month period ended 31 December 2014 (1HFY15). Arena also announced it will be raising $25 million via a fully-underwritten equity placement.

KEY HIGHLIGHTS

1 Strong earnings growth delivered

- Statutory net profit of $21.5 million, up 70% on prior corresponding period (PCP).
- Distributable income of $10.5 million (up 24% on PCP) reflecting 4.97¢ per Security, up 20.3% from PCP.
- Net revaluation gain of $13.7 million, increasing net asset value to $1.18 per Security, up $0.05 per Security or 4.4% from 30 June 2014.
- Distributions paid of 4.9 cents per Security, up 30.7% from 3.75[1] cents on PCP.
- On track to deliver FY15 distribution guidance of 10.0 cents per Security (14.3% annual increase from FY14).

2 Underlying operating activity all positive

- **Average rent review increase** – 2.9% (like for like basis, reflecting CPI and fixed reviews).
- **Lease extension options exercised** – Tenants exercised five year lease extension options on 15 properties, being 100% of all those that came up during the period.
- **Childcare development pipeline progressed** – Four projects completed for a total cost of $9.5 million, at an average yield on cost of 9.1%. Three new sites acquired for future childcare development. Forecast pipeline project cost of circa $43 million ($17 million still to spend).
- **Tenant reported operating metrics** – Average underlying business metrics for portfolio have continued to improve supporting the potential for future rental growth.

[1] Reflects period from 1 July 2013 to 10 December 2013.

- Important post balance date events (not reflected in the financial results):
  - **Additional leases extended** – 20 childcare properties where options had previously expired, extended for an additional five years. This extends the weighted average (on income) remaining lease term of the portfolio to 8.9 years (+0.4 from 30 June 2014).
  - **Market rent reviews finalised** – Resolved market rent reviews on 45 properties (effective from June 2013 to 30 June 2015) at an average increase of 6%.
  - **Debt facility limit increased** – Facility limit increased to $175 million, up $20 million to assist with funding the development pipeline.
  - **Project completed –** A further childcare centre development was completed for a total cost of $2.4 million generating a yield on cost of 9.3%.

3 Internalisation restructure proposal completed

- Several future benefits including enhanced alignment of Board and management with investors, removal of management fees and enhanced earnings growth prospects.
- Strongly supported by investors and implementation completed smoothly.
- Diversified social infrastructure investment strategy, which together with internalised structure, clearly differentiates Arena from its nearest competitors.

Arena's Chairman Mr David Ross said "It has been another busy 6 month period for Arena with significant resources devoted to considering corporate proposals, concluding with the implementation of the Internalisation Proposal. We continue to be very pleased with the broad investor support being given to the Group. We believe Arena is well positioned moving forward with several levers potentially available to generate earnings growth."

INSTITUTIONAL PLACEMENT

Arena today also announced it will raise $25 million via a fully-underwritten equity placement (Placement). The proceeds of the equity raising will be initially used to repay borrowings which will be available for redraw to fund Arena's future development pipeline and potential new investment opportunities. In conjunction with the Placement, funds advised by Morgan Stanley Real Estate Investing (MSREI) will also seek to sell down its 12.7% stake in ARF.

The outcome of the Placement is expected to be announced to the market before commencement of normal trading on Thursday 26 February 2015. Pending this announcement, ARF stapled securities have been placed in a trading halt. Trading in ARF stapled securities is expected to resume on Thursday 26 February 2015.

The New ARF Securities will be be issued at a price of $1.60, will rank equally with existing ARF securities and therefore be fully entitled to the March quarter distribution and eligible to participate in the Distribution Reinvestment Plan (DRP). The issue price represents a 2.7% discount to the 30 day volume weighted average price (VWAP) to market close on 24 February 2015.

The Placement and sell down of MSREI's stake is being conducted by Morgan Stanley Australia Securities Limited (Morgan Stanley) in conjunction with Arena's advisors, Fort Street Advisers. The Placement is fully underwritten by Morgan Stanley.

The Placement is expected to have the following pro forma impact on ARF's key balance sheet metrics as at 31 December 2014:

- Increases net asset value (NAV) by approximately 3 cents to approximately $1.21 per Security
- Reduces gearing to approximately 28.1%.

1HFY15 FINANCIAL SUMMARY

Mr Bryce Mitchelson, Arena's Managing Director commented "Arena's underlying property performance was very solid during the period reflecting strong market conditions, improving tenant profitability and the overall quality of the existing portfolio. We are committed to taking a long term partnership approach with our existing tenants because together, we believe that is the best way to identify and secure the best quality properties from an operator profitability perspective which in turn should generate long term earnings growth for our investors."

Income Statement Half Year Ending	December 2014 $'000	December 2013 $'000	% Change
Lease rental income	15.2	11.4	33.3%
Other income	0.1	0.0	100%
Total operating income	**15.3**	**11.4**	**+34.2%**
Operating expenses	(2.3)	(2.0)	-15%
Finance costs	(2.5)	(1.0)	-150%
Distributable income	**10.5**	**8.5**	**+24%**
Non-distributable items	11.0	4.1	+168%
Statutory net profit	**21.5**	**12.6**	**+70.6%**
Distributable Income per Security	4.97	4.13	+20.3%
Distribution per Security	4.90	3.75[A]	+30.7%
Pay-out ratio	98.6%	90.8%	+7.8%
Balance Sheet metrics	**31 December 2014**	**30 June 2014**	**% Change**
Investment Property	$382.3m	$355.8m	+7.5%
Total Assets	$403.6m	$375.3m	+7.5%
Drawn borrowings	$137.8m	$124.8m	+10.4%
Net Assets	$249.5m	$238.2m	+4.7%
Gearing[B,C]	34.2%	33.3%	+0.9%
NAV per Security	$1.18	$1.13	+4.4%
Securities on Issue	211.6m	211.5m	0.0%

Notes

A. Reflects period from 1 July 2013 to 10 December 2013.
B. Borrowings net of loan establishment costs of $0.2 million (30 June 2014: $0.2 million).
C. Gearing calculated as Borrowings / Total Assets.

Mr Mitchelson added "We are in a privileged position of being a sizeable landlord in a very fragmented and undersupplied market. We obtain strategic insights by analysing ongoing reported underlying business operating data and marrying this up with both data on existing supply and demographics, and our knowledge of property markets to secure what should be highly profitable centres for our tenants."

Capital management

- Extended debt facilities by $20 million to $175 million.
- Extended interest rate hedging to a weighted average of 3.5 years.
- Fixed rate hedging covers 62% of the drawn debt.
- Opened Distribution Reinvestment Plan (DRP).

Investment portfolio

At 31 December 2014	Medical centres	Childcare centres	Childcare centre sites	Total 31 Dec 2014	Total 30 Jun 2014
No of properties	7	179 (+4)	10 (-1)[A]	196 (+3)	193
Value ($m)	65.2	294.2[B]	22.9	382.3	355.8
Annual passing rent ($m)	5.5	24.7[B]	–	30.2	29.0
Average passing yield	8.4%	8.5%[B]	–	8.4%	8.7%
Occupancy (by number)	100.0%	99%	–	99%	99%
WALE (by income)	8.0	8.6 / 9.2[C]	–	8.4 / 8.9[C]	8.5

Notes:

A. Includes 3 surplus vacant sites and excludes 4 development properties not settled.
B. Excludes impact of market rent reviews and additional lease extensions agreed post balance date.
C. Includes additional leases that were extended for five years, agreed after close of reporting period.

The key portfolio highlights for the half year include:

- **Rental growth** – During the period, all properties owned for the period[2] were subject to rent reviews with an average increase of 2.9%. The average increase for childcare properties was 2.8% and healthcare centres 3.0%.
- **Property revaluations** – During the period 61 independent valuations were undertaken representing 31% (by value) of the portfolio. The remaining properties were all internally revalued. For the half year, the total revaluation increment recognised was $13.7 million reflecting a like-for-like increase in value of 7.9% for the childcare portfolio, reflecting a firming in the yield of 0.3% to 8.5%.
- **Childcare centre development pipeline** – 11 projects with an approximate cost of $43 million, all with 15 year tenancy pre-commitments:
    - **Completed in 1HFY15** – There were four projects completed for a total cost of $9.5 million and are generating an average initial yield on completion of 9.1%. A further project was completed after the reporting date.

[2] Excludes vacant centres and developments.

- **In progress** – There are three projects currently in construction which are expected to be completed towards the end of 2HFY15. They have a budgeted cost of approximately $7 million and are expected to generate an initial yield range of 9% to 9.5%.
- **Development awaiting planning approvals** – There are a further 8 projects owned or under contract, which are presently awaiting planning approval. These have a total project cost of $36 million and generated an initial yield range of 8.5% to 9.0%. If planning approval is obtained in the short term, these projects should be completed in FY16.

FY15 DISTRIBUTION GUIDANCE

Looking forward to the second half of FY15, we reaffirm our previous FY15 distribution guidance of 10.0 cents[3] per Security (subject to no unforeseen events), which reflects distribution growth of 14.3% over FY14[4]. Given our 1HFY15 distribution of 4.9 cents, this implies a distribution of 5.1 cents per Security for the second half.

– ENDS –

ONLINE RESULTS PRESENTATION AND HOSTED CONFERENCE CALL

Arena will be hosting an online presentation and conference call at 11.30am today (Wednesday 25 February 2015), to discuss the interim FY15 results in more detail. You can register for the webinar at Arena's website www.arena.com.au or by coping and pasting the following url into your web browser: https://attendee.gotowebinar.com/register/7212254583398589185. Alternatively, you can dial into the conference call using the following details:

- Australian dial-in number: +61 2 8373 3507
- International dial-in number: + 61 2 8373 3550
- Passcode for participants: 89408314

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About Arena REIT

Arena REIT (ARF) is an ASX 300 listed real estate investment group investing in Australian social infrastructure property, including childcare and medical centres leased on a long term basis. To find out more, please visit us at www.arena.com.au

[3] Subject to no unforseen events. On a status quo basis assuming no new acquisitions and developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations.
[4] Please refer to the 1HFY15 investor presentation dated 25 February 2015 for further information on proforma financial information and investment risks.

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