Arena REIT
ASX Code: ARF

ASX Announcement
22 February 2016

FY16 INTERIM RESULTS

Strong result drives FY16 distribution guidance upgrade to 10.9 cps[1]

KEY FINANCIAL HIGHLIGHTS

- Net Operating Profit (Distributable Income) of $12.6 million, up 20% on pcp;
- Statutory Net Profit of $41.4 million, up 93% on pcp;
- Distributable Income per security (EPS) of 5.52 cents per security, up 11% on pcp;
- Distribution per security (DPS) of 5.35 cents per security, up 9% on pcp;
- Growth in total assets to $481 million, gearing at 27.3%, down from 29.1% at June 2015;
- Net Asset Value (NAV) per security up 13 cents to $1.46, up 10% since June 2015;
- A Return on Equity (ROE) of 26.6% p.a. for the six months to 31 December 2015;
- An ASX total return of 19.7% for the six months to 31 December 2015; and
- An upgrade in FY16 distribution guidance to 10.9 cents per security[1], representing an increase of 9% on FY15.

Arena REIT Group (Arena) has today announced another strong interim result, with Net Operating Profit of $12.6 million, up 20% on the prior corresponding period. This result was driven by solid portfolio performance, income from completed developments and the flow through of benefits from the management internalisation completed in December 2014.

Statutory Net Profit for the period was $41.4 million, up 93% on the prior corresponding period. This included a $30 million increase in property valuations across the portfolio.

Commenting on the result, Arena's Chairman David Ross said "Arena's disciplined management approach, deep market knowledge and ability to source and execute value-adding initiatives across the portfolio has delivered positive results. In addition, the enhanced alignment and cost efficiencies delivered through internalisation have positioned Arena with a strong comparative advantage to continue to deliver competitive earnings growth."

Distributable Income per security (EPS) was 5.52 cents, up 11% on the prior corresponding period. Following today's result, Arena has upgraded FY16 distribution guidance to 10.9 cents per security[1], reflecting an increase of 9% over FY2015, and average annual distribution growth of 11% since listing on the ASX in June 2013.

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[1] *On a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions and tenants comply with their lease obligations.*

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Arena's net assets grew by $32.3 million following revaluation of the property portfolio. This resulted in a 10% increase in NAV per security to $1.46 at 31 December 2015, up from $1.33 at 30 June 2015.

Arena's Managing Director Bryce Mitchelson said "Investors continue to benefit from our investment in assets with long-term leases to quality tenants operating in identified growth sectors. Pleasingly, Arena has delivered a six month total return of 19.7%, outperforming the S&P/ASX 300 A-REIT Accumulation Index return by 12.5%, one of the top performing A-REIT's for the period."

PORTFOLIO FUNDAMENTALS STRENGTHENED

Active asset management over the half-year has continued to strengthen the portfolio. Under Arena's long-term leases, annual rent reviews have continued to provide a growing and predictable income stream:

- **Fixed/CPI rent reviews:** 74 fixed/CPI rent reviews were completed during the period, representing 48% of the portfolio (by income), with an average annual increase of 2.5% achieved. A further 39% of the portfolio (by income) will be subject to fixed/CPI reviews in the remainder of FY16. Importantly in a low inflation environment[2], 90% of total FY2016 fixed/CPI rent reviews (by income) have a minimum 2.5% increase in place.
- **Market rent reviews:** 11 market reviews remain outstanding as at 31 December 2015. When combined with the 20 market reviews due in the second half of FY2016, a total of 13% of the portfolio (by income) is subject to market review in FY2016. These reviews are all on childcare assets and are subject to a 0% collar and 7.5% cap.

Other highlights include:

- **Lease extensions:** the extension of 12 leases (100% renewal rate) and the completion of two new childcare centres on 15 year leases, resulting in a weighted average lease expiry (WALE) of 8.8 years; and
- **Asset sales and leasing:** the sale of two childcare assets and the leasing of a vacancy in QLD resulting in 100% portfolio occupancy.

Property metric	Medical centres	Childcare centres	Devt. sites	Dec 15	Jun 15	Change
Number of properties	7	179	15	201	197	+2%
Value ($m)	75	351	30	456	421	+8.3%
Freehold average passing yield (%)	7.6	7.6	–	7.6	8.0	-40bps
Occupancy (%)	100	100	–	100	99	+1%
WALE (by income) (years)	7.0	9.2	–	8.8	8.9	-1%

On a portfolio basis, aggregated tenant centre operating data indicates that the underlying business profitability of Arena owned centres has improved over the past six months.

[2] *CPI is calculated on a state-by-state basis for the purposes of rental reviews. The average CPI for all cities for the year ended 31 December 2015 was 1.7%.*

REVALUATION UPLIFT OF $30 MILLION

Revaluations completed at 31 December 2015 increased the value of the property portfolio by $30 million to $456 million, with the largest valuation growth occurring in the healthcare portfolio (up 10.5%). This growth in valuations reflected rental growth and a continued firming in yields, with the Arena portfolio average passing yield firming 40 basis points to 7.6%. Arena continues to see sales evidence in the direct market that suggests the average passing yield for the portfolio may continue to strengthen.

DEVELOPMENT PIPELINE REPLENISHED

Arena continues to build on its track record of origination and execution of accretive development projects that deliver high quality, strategically located assets on long-term leases to experienced operators. During the half-year the development pipeline was again replenished, with projects completed, underway and new sites acquired.

Key highlights include:

- completion of two modern, purpose-built childcare centres at a net cost of $5.6 million and an average initial yield on cost of 9.2%;
- a further two suburban metropolitan projects at a net cost of $13.5 million scheduled for completion in the third quarter of FY16 on an average initial yield on cost of 8.5%; and
- an agreement with the State of Victoria to deliver six ELC's[3] adjacent to new primary schools under construction. The projects have an estimated net cost of $15 million and are leased on completion to YMCA for 26 years. Five of the projects are forecast for completion in January 2017 and one in January 2018.

In total, the development pipeline comprises 15 projects with a total estimated cost of approximately $60 million (of which $30 million has been invested to date).

STRONG BALANCE SHEET

At 31 December 2015, total assets increased to $481 million, driven predominantly by the revaluation of the property portfolio. Borrowings remained unchanged at $131 million (with asset sale proceeds used to fund development capex during the period), resulting in a reduction in gearing to 27.3%.

During the half-year, Arena pro-actively renegotiated its debt facility to extend the weighted average debt duration out to four years. Arena's weighted average cost of debt is 3.9% p.a. at 31 December 2015.

Interest rate hedging was also extended during the period, with the weighted average hedge duration increasing to 4.3 years and hedge coverage to 76% of drawn debt at 31 December 2015.

At 31 December 2015, Arena had undrawn debt capacity of $44 million to fund its development pipeline and new investments. The Distribution Reinvestment Plan (DRP) continued to operate during the period, raising $3 million through the issue of new equity at a premium to NAV.

[3] *On completion, the six sites are to be secured on a 26 year ground lease from the Victorian State Government.*

POSITIVE OUTLOOK

Arena has today announced an upgrade of FY16 distribution guidance to 10.9 cents per security[4]. This upgrade represents growth of 9% over FY2015, and reflects the benefits of active portfolio management, proactive capital management and upside from execution of development projects. At Friday's closing price of $1.78, this represents a distribution yield of 6.1%.

Mr Mitchelson said "Arena's property portfolio continues to deliver secure and growing earnings, underpinned by quality assets, long term leases and annual fixed rent reviews. Our ability to identify and execute on opportunities to add-value, combined with our aligned corporate structure and funding capacity continue to provide a strong comparative advantage to our investors."

MANAGEMENT CONFERENCE CALL PRESENTATION

Arena will be hosting a conference call at 11.00am today (Monday 22 February 2016) to present the 1HFY16 results. A copy of the interim results presentation has also been lodged with the ASX and on Arena's website (www.arena.com.au). To listen to the management presentation, please register and obtain the call details using the following link: http://www.arena.com.au/arena-reit/arena-reit-fy16-interim-results-teleconference

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About Arena REIT

Arena REIT (Arena) is a leading Australian property investor and manager currently invested in childcare and medical centres with relatively long leases and secure income streams. To find out more, please visit us at www.arena.com.au

[4] *On a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations.*

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