ARF.ASX

Arena REIT

FY16 Interim Results

Strong result drives FY16 DPS guidance upgrade

22 February 2016

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Agenda

1 Overview

1.1

Half-year highlights

Strong operational results

Strong financial results

- > Net Operating Profit $12.6 million (+20% on HY15)
- > Distributable Income per security (EPS) 5.52 cents (+11% on HY15)
- > Net Asset Value (NAV) per security up 13 cents to $1.46 (+10% on June 2015)
- > Return on Equity (ROE) 26.6% p.a. for the six months ended 31 December 2015

Optimising portfolio performance

- > 2.5% like-for-like annual fixed rent review growth[1]
- > 100% lease renewals and WALE at 8.8 years
- > Occupancy increased to 100%
- > Two developments completed and new projects added to the development pipeline

Positioned for growth

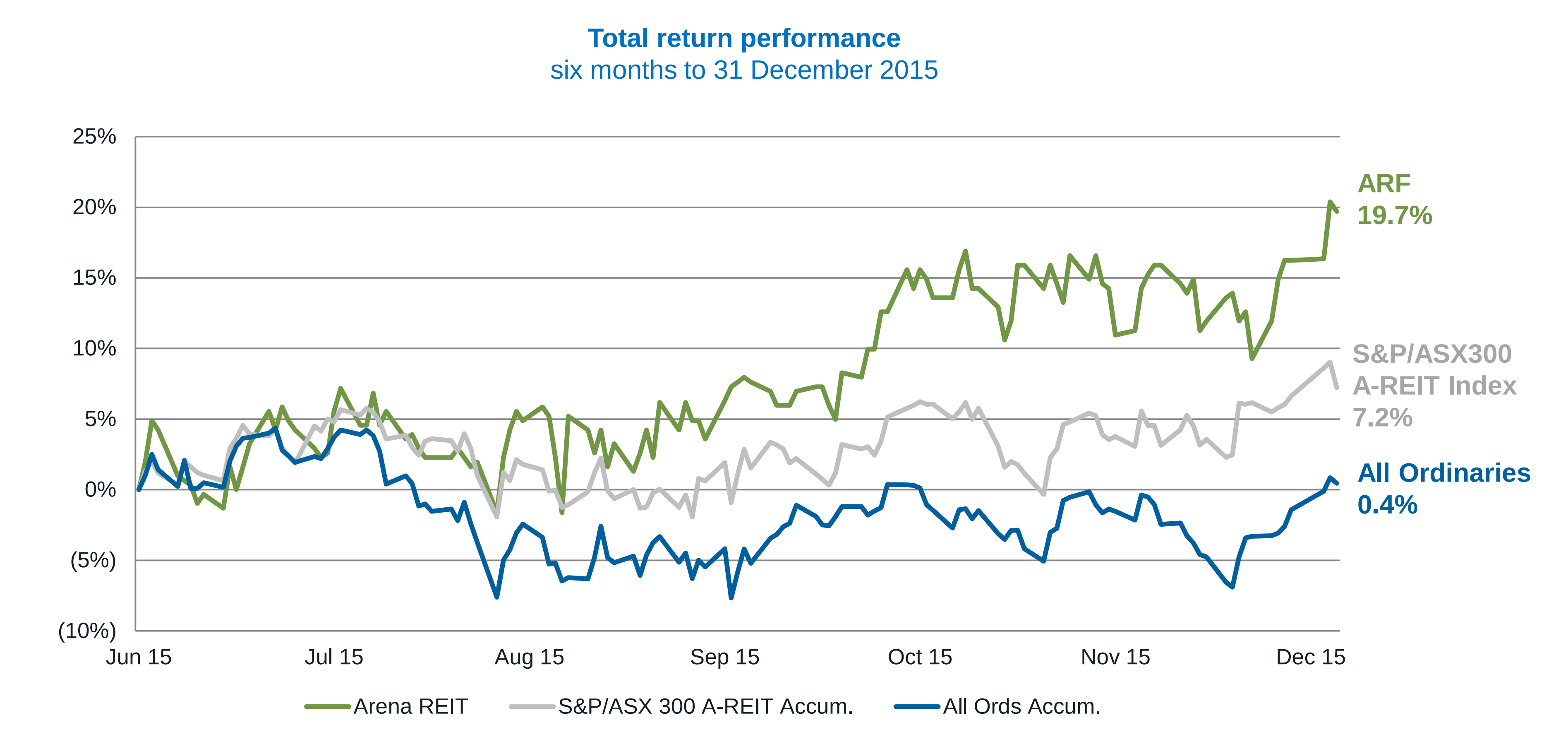
- > Debt facility term extended, weighted average cost of debt 3.9% p.a.
- > Disciplined overhead management with low MER
- > Gearing reduced to 27.3%
- > Undrawn debt capacity of $44 million to fund development pipeline and acquisitions

FY16 Distribution guidance increased to 10.9 cents[2] (+9% on FY15)

[1] No market rent reviews completed in first half of FY16.
[2] Estimated 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.

1.2 Six-month total return of 19.7%

Outperformance of S&P/ASX 300 A-REIT Index by 12.5%

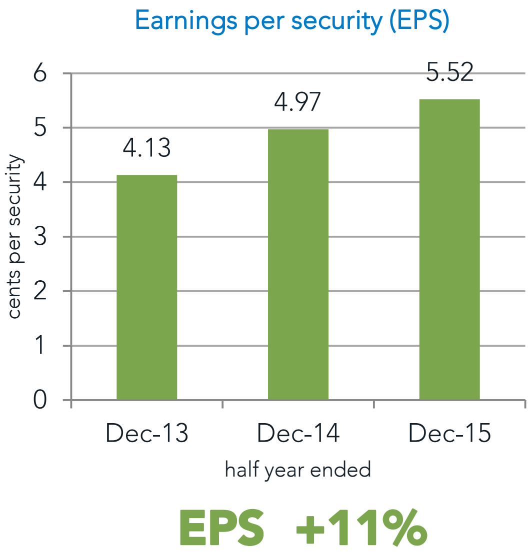


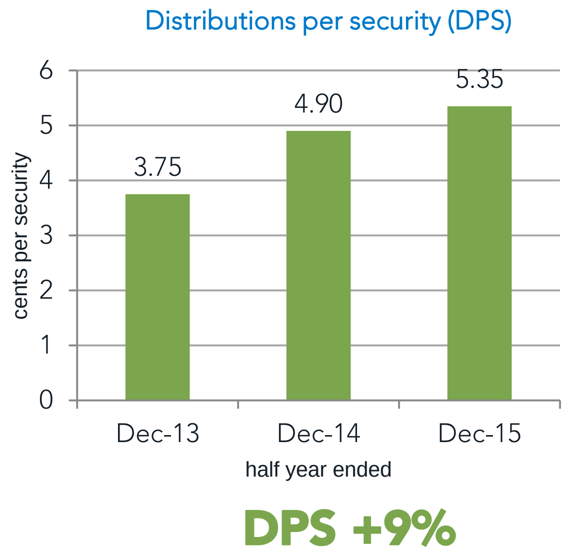
2 Financial Results

2.1

Financial highlights

Strong operational result translates to increase in earnings and distributions





> Net Operating Profit $12.6 million, up $2.1 million (20% on pcp) following:
- growth in rental income
- development completions
- lower operating costs post internalisation

> EPS up 11% on pcp

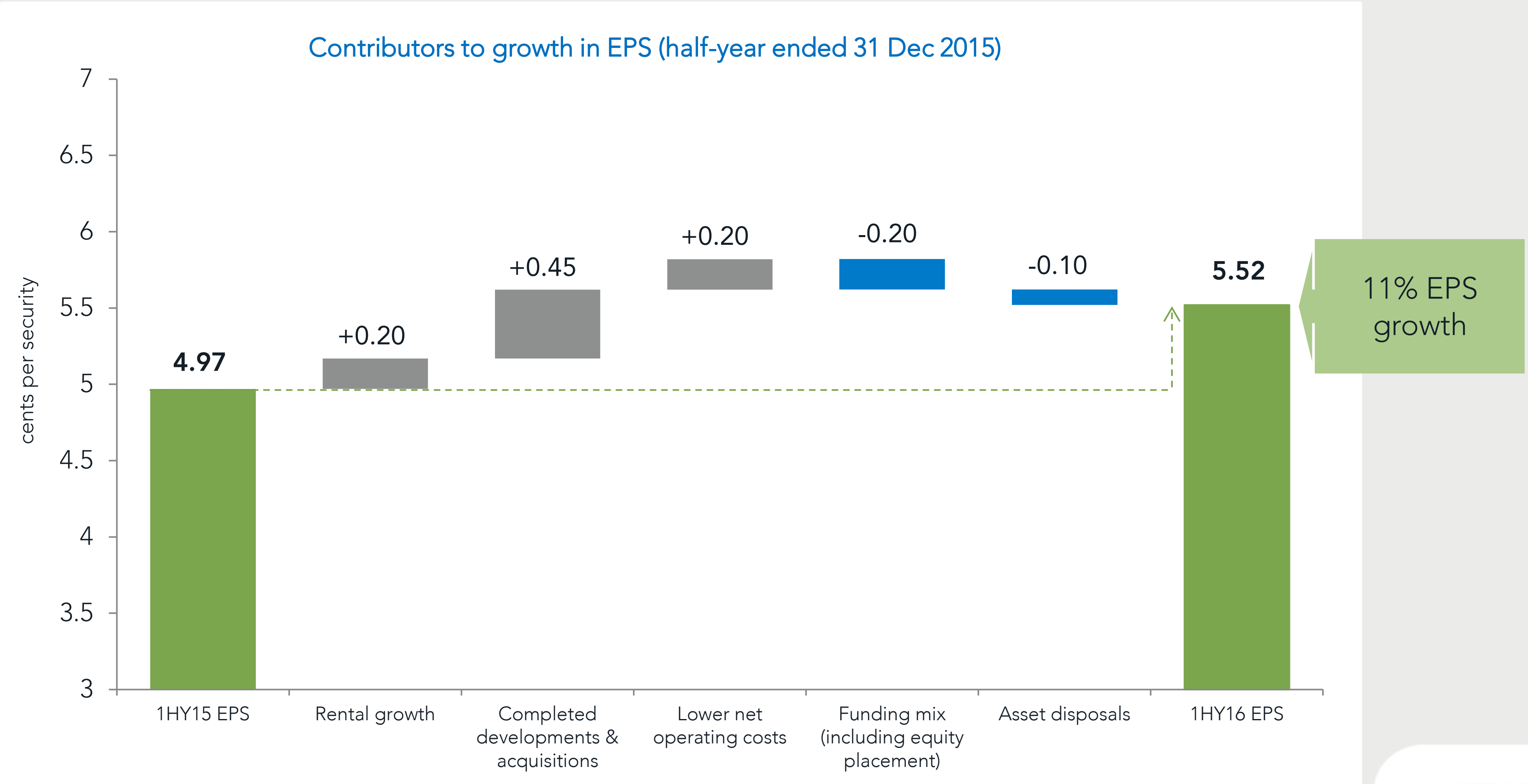
> DPS up 9% on pcp

> 97% payout ratio

			Change	
	1HFY16	1HFY15	value	%
Statutory Net Profit ($m)	41.4	21.5	19.9	93
Net Operating Profit ($m)	12.6	10.5	2.1	20
Earnings per security (EPS) (cents)	5.52	4.97	0.55	11
Distribution per security (DPS) (cents)	5.35	4.90	0.45	9

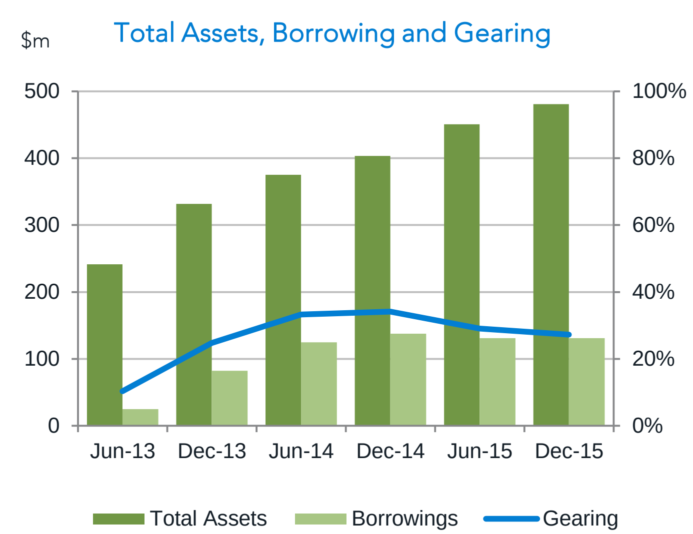
2.2 Key drivers of growth in EPS – 11% on pcp

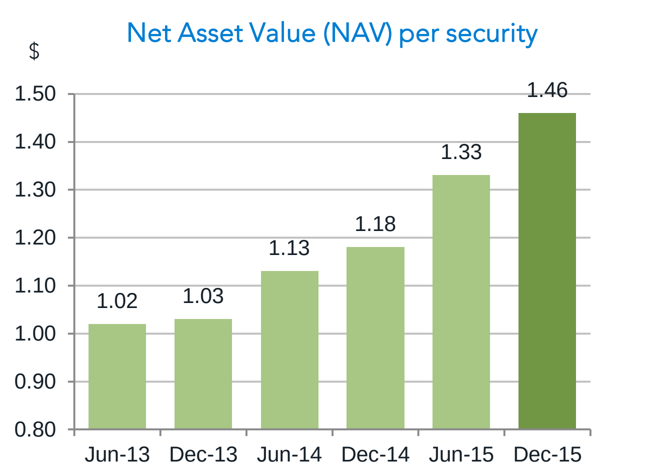
Disciplined execution of strategy delivering growth



Strong balance sheet with capacity for growth

Allocation of capital focused on enhancing portfolio quality





	31 Dec 15	30 Jun 15	Change value	Change %
Total assets ($m)	480.7	450.6	30.1	7
Borrowings ($m)	131.0	131.0	-	-
Balance sheet gearing (%)	27.3	29.1	-180 bps	-
Net asset value ($m)	335.8	303.5	32.3	11
NAV per security ($)	1.46	1.33	0.13	9.8
Return on Equity p.a. (%) [1]	26.6	22.7	390 bps	-

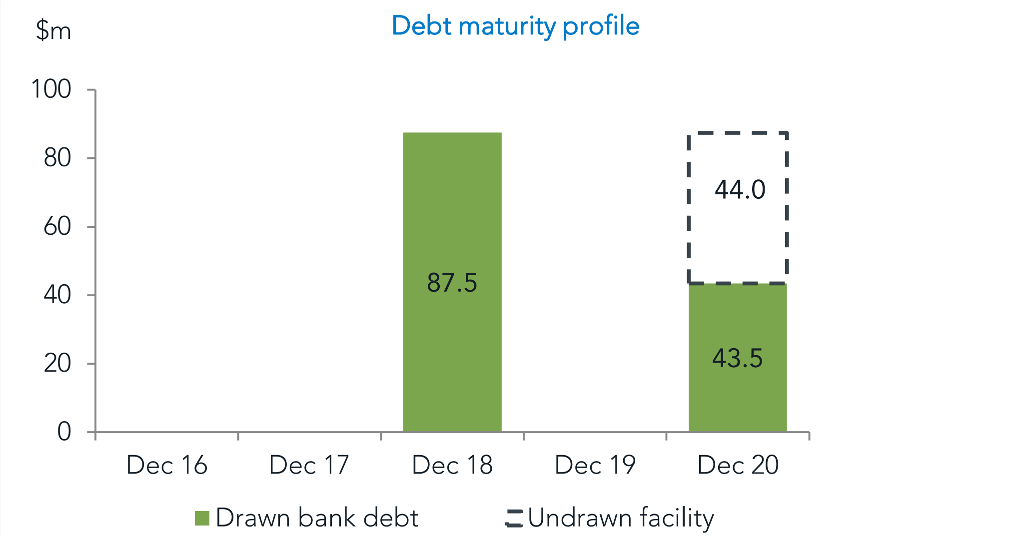
- > Total assets $481 million (up 7%)
- > Borrowings unchanged at $131 million
- > Recycling of capital – asset sale proceeds used to fund development capex
- > DRP open at 1.5% discount, raising $3 million for the half-year
- > Gearing 27.3% providing capacity to fund growth opportunities
- > NAV per security up 13 cents to $1.46 following $30 million asset revaluation uplift

[1] *ROE p.a. calculated for the six months to 31 December 2015 (annualised) and the 12 months to 30 June 2015.*

2.4

Pro-active capital management

New debt facility negotiated with terms improved



	Dec 2015	Jun 2015
Facilities ($m)	175	175
Drawn ($m)	131	131
Undrawn ($m)	44	44
Average facility term (years)	4.0	3.0
Interest rate hedging cover (%)	76	69
Weighted average hedge term (years)	4.3	3.5
Weighted average cost of debt (%)	3.9	4.3

- Debt facility renegotiated resulting in extended weighted average duration to four years
- Significant headroom in LVR and ICR debt covenants
- Weighted average hedge term extended to 4.3 years, 76% of drawn debt hedged at 31 December 2015
- $44 million in undrawn capacity to fund development pipeline

3

Portfolio Update

3.1

Portfolio strategy continues to deliver results

Positive results from a disciplined approach

Delivering organic growth	> 2.5% income growth (like-for-like) on fixed/CPI rent reviews[1] > Revaluation uplift $30 million
Maximising portfolio performance	> 23% annual underlying total property return > 100% lease renewal rate with 12 options exercised > WALE at 8.8 years
Diversification of income sources	> Agreement with State of Victoria to construct six ELCs at a net cost of $15 million > Five projects to be completed by January 2017 > New quality tenant added to portfolio in YMCA
Enhancing portfolio quality	> Two completed developments delivering an initial 9.2% yield on cost > Two vacant properties sold at book value > Total development pipeline across 15 projects of approximately $60 million[2]

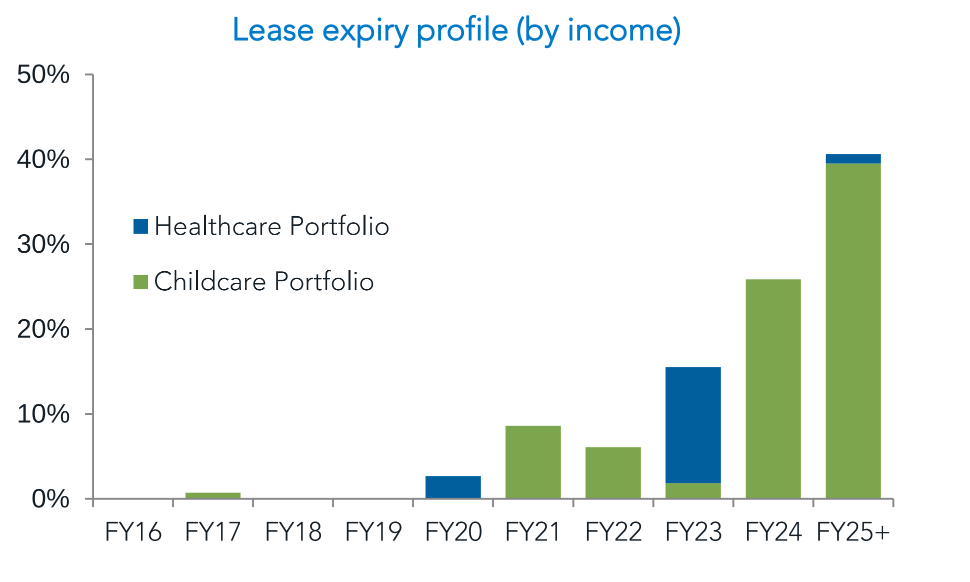
[1] No market rent reviews completed in first half of FY16.
[2] $30 million WIP invested to date.

3.2

Strong recurring income stream

100% occupancy and long WALE deliver income security and predictability

	Medical centres	Childcare centres	Development sites	Total 31 Dec 2015	Total 30 Jun 2015
Number of properties	7	179	15	201	197
Book value ($m)	75	351	30	456	421
Like-for-like rental growth (%)	2.8	2.4	–	2.5[1]	3.4
Freehold average passing yield (%)	7.6	7.6	–	7.6	8.0
Occupancy (%)	100	100	–	100	99
WALE (by income) (years)	7.0	9.2	–	8.8	8.9



> Portfolio occupancy 100% following sale of two vacant assets and leasing of existing vacancy

> Minimal expiries for next five years

> Portfolio WALE 8.8 years

[1] *No market rent reviews completed in first half of FY16.*

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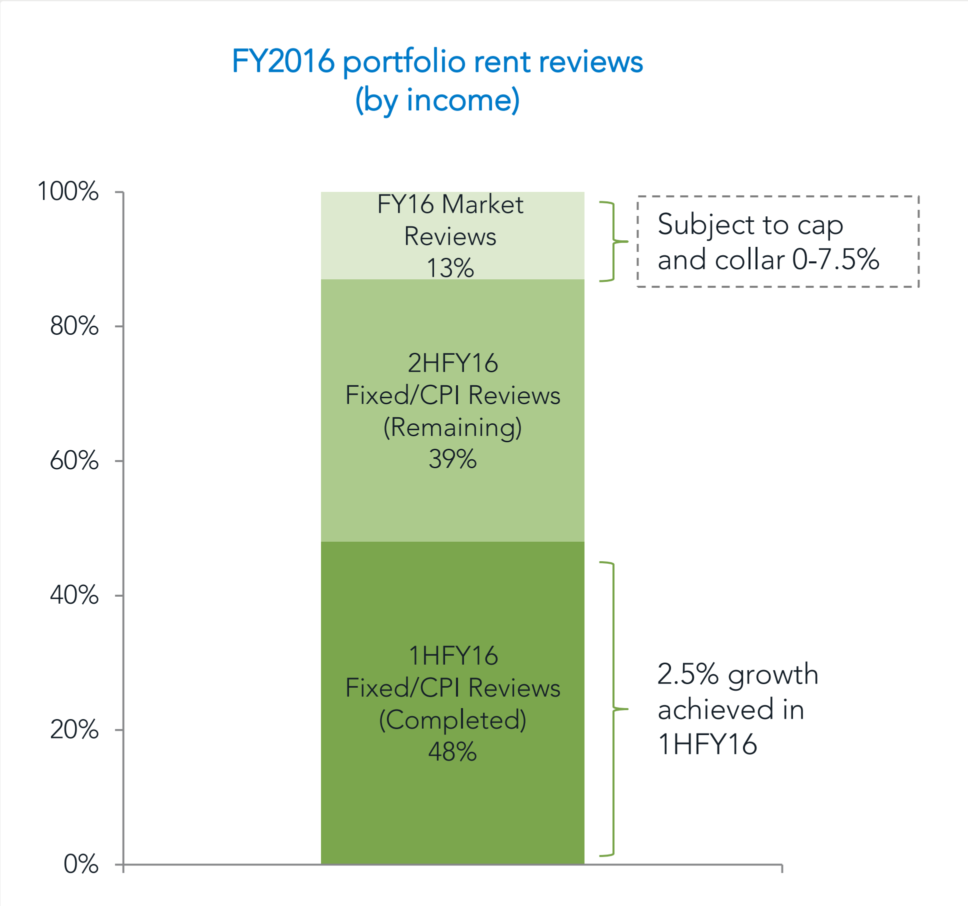
Rental growth underpinned by fixed increases

Market rent reviews not yet completed



Fixed/CPI rent reviews (87% of portfolio income):

> Of which, 90% have a minimum 2.5% increase

1HFY16

> 48% of portfolio income subject to fixed/CPI reviews, with like-for-like growth of 2.5% achieved

2HFY16

> 39% of portfolio income subject to fixed/CPI reviews

Market rent reviews (13% of portfolio income):

> 11 market reviews outstanding for 1HFY16

> 20 further market reviews due in 2HFY16

> All market reviews are on childcare assets and subject to a cap and collar 0-7.5%

> These childcare centres have passing rent to gross revenue ratios on average of under 10% and are well below economic replacement rents

Tenant profile

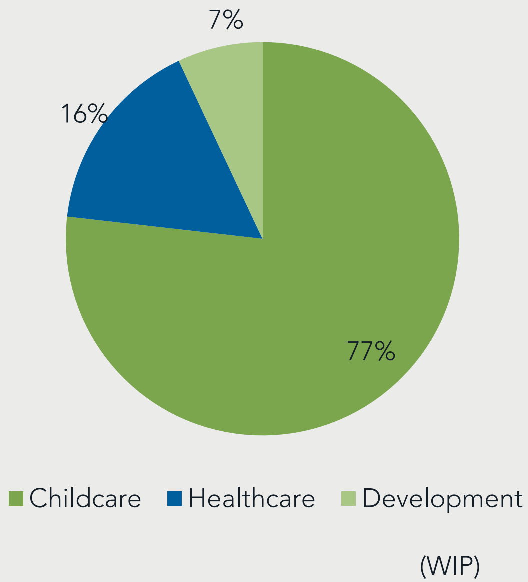
Diversification by sector, location and tenant

> Portfolio weighted to high population growth states of NSW, VIC and QLD

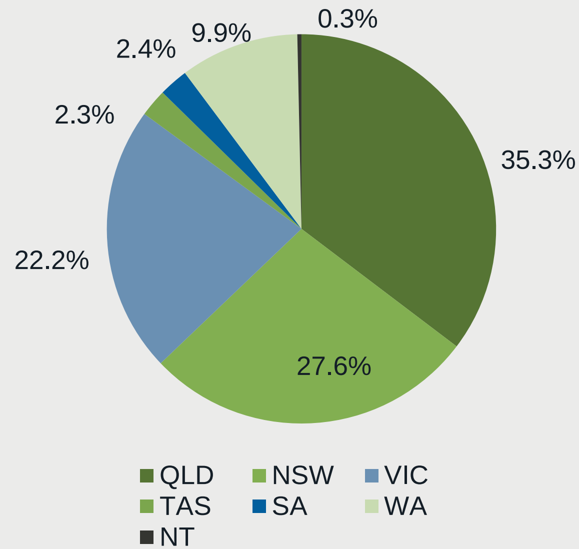
> 45% weighting to Goodstart Early Learning

> Investor interest in childcare operators continues with privatisation of Affinity Education Group and sale of Guardian Early Learning

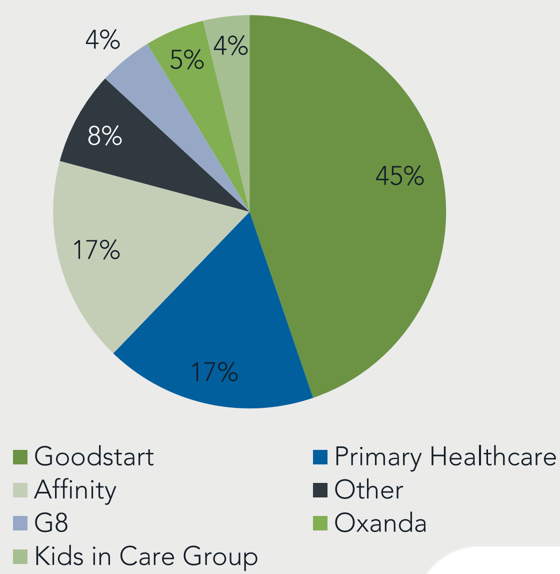
Sector Diversification (by value)
31 December 2015



Geographic Diversification (by value)
31 December 2015



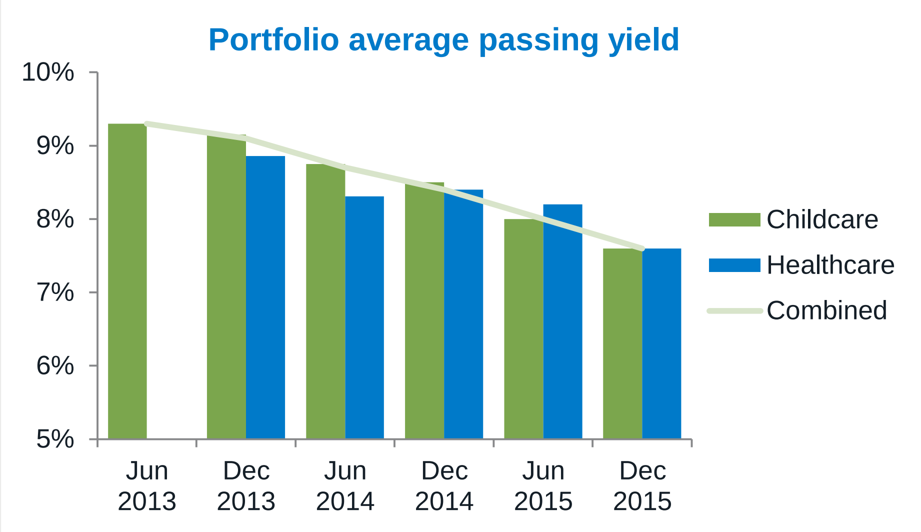
Tenant Diversification (by income)
31 December 2015



3.5 Strong portfolio revaluation uplift

….due to rental income growth and firming cap rates

- Six month net revaluation increase of $30 million
- 32% of the portfolio (by value) independently valued at 31 December 2015
- Largest uplift in healthcare portfolio (+10.5%)
- Portfolio passing yield firmed 40 basis points to 7.6%



	Number of assets	Value ($m)	Proportion of total portfolio (%)	Six month value movement (%)	Passing Yield (%)
Childcare Independent Valuations	35	70	16	8.7	7.4
Childcare Director Valuations	159	311	68	6.1	7.6
Total Childcare Valuations	194	381	84	6.5	7.6
Healthcare Independent Valuations	7	75	16	10.5	7.6
Total Portfolio	**201**	**456**	**100.0**	**7.1**	**7.6**

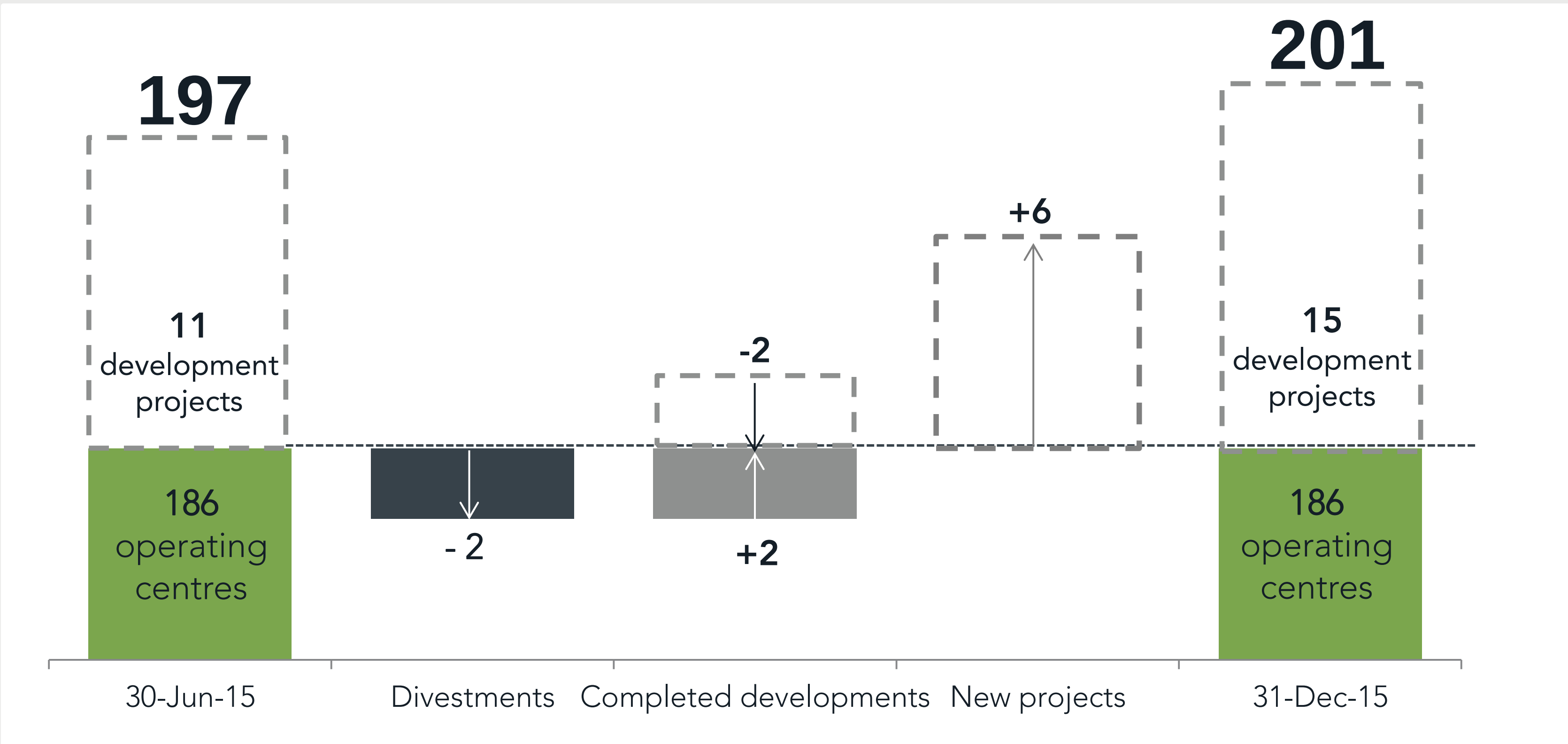
3.6 Portfolio composition

Recycling to improve portfolio quality

> Divested two older style, vacant centres

> Completed two purpose built centres on new 15 year leases

> Increased development pipeline with six new projects added



3.7 New ELC's for State of Victoria

Innovative transaction building quality long term partnerships

Project

- Agreement to design and construct six ELCs adjacent to new primary schools in Victoria
- Leasehold interest on 26 year term at peppercorn rental
- Leased to YMCA on triple net lease for term of ground lease
- Five centres due for completion in January 2017, one centre in January 2018

Partners

VICTORIA

YMCA

Learning Communities VICTORIA

Financials

- 26 year leases with annual 3% increase, market reviews (with 3% ratchet) every five years
- 100% debt funded net development cost of $15 million
- Accretive to earnings in FY17 and FY18

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3.8

Completed developments

Successful completion of two childcare centre projects

> Total net cost of $5.6 million and average initial yield on cost 9.2% p.a.




Location	Net cost ($m)	Initial yield on cost (%)	Lease term (years)	Lease start date	Rent review type
Murwillumbah, NSW	2.4	9.5	15	Nov 2015	Subject to annual reviews at greater of CPI or 2.5%. Market reviews in year 10 and at commencement of each option term.
Kawana, QLD	3.2	9.0	15	Nov 2015	

3.9 Active development pipeline

14 projects forecast to be completed over next two years

> High quality projects with Arena's standard lease structure

2 properties in construction phase to be completed 2HFY16

7 ready to commence construction, expected completion FY17 and FY18

5 awaiting development approval

1 site in feasibility stage

15 sites

Approx. $60 million
Estimated net total project costs

$30 million
WIP invested to date

Approx. 8%
Weighted average initial yield

3.10

Sector outlook

Rigorous investment process required

Sector funding models to be finalised by Federal Government

- Proposed funding changes under consideration:
  - Childcare – November 2015 proposed changes in 'Jobs for Families Childcare Package' to increase childcare subsidy by $3.0 billion (down from $3.5 billion as announced in May 2015) and reduced rebate for higher income families
  - Healthcare – December 2015 proposed reduction of bulk-billing incentives for pathology and diagnostic imaging services

Childcare sector demand continues to grow, new supply has been absorbed

- Latest government data[1] indicates that in the year to March 2015:
  - the number of children attending long day care increased by 19,020 (+3%)
  - the average hours attended per week increases from 27.8 hours to 28.1 hours (+1.1%)
  - net addition of 206 long day care centres (+3.2%)

Long day care centre supply outlook increasing

- In CY15, Arena estimates 227 net new long day care centres were added[2]
- Planning applications point to an increase in future supply
- High supply/demand variability across local markets highlights importance of rigorous investment process

[1] *Australian Government Department of Education and Training: Early Childhood and Child Care in Summary, March 2015 (released February 2016).*
[2] *Arena analysis.*

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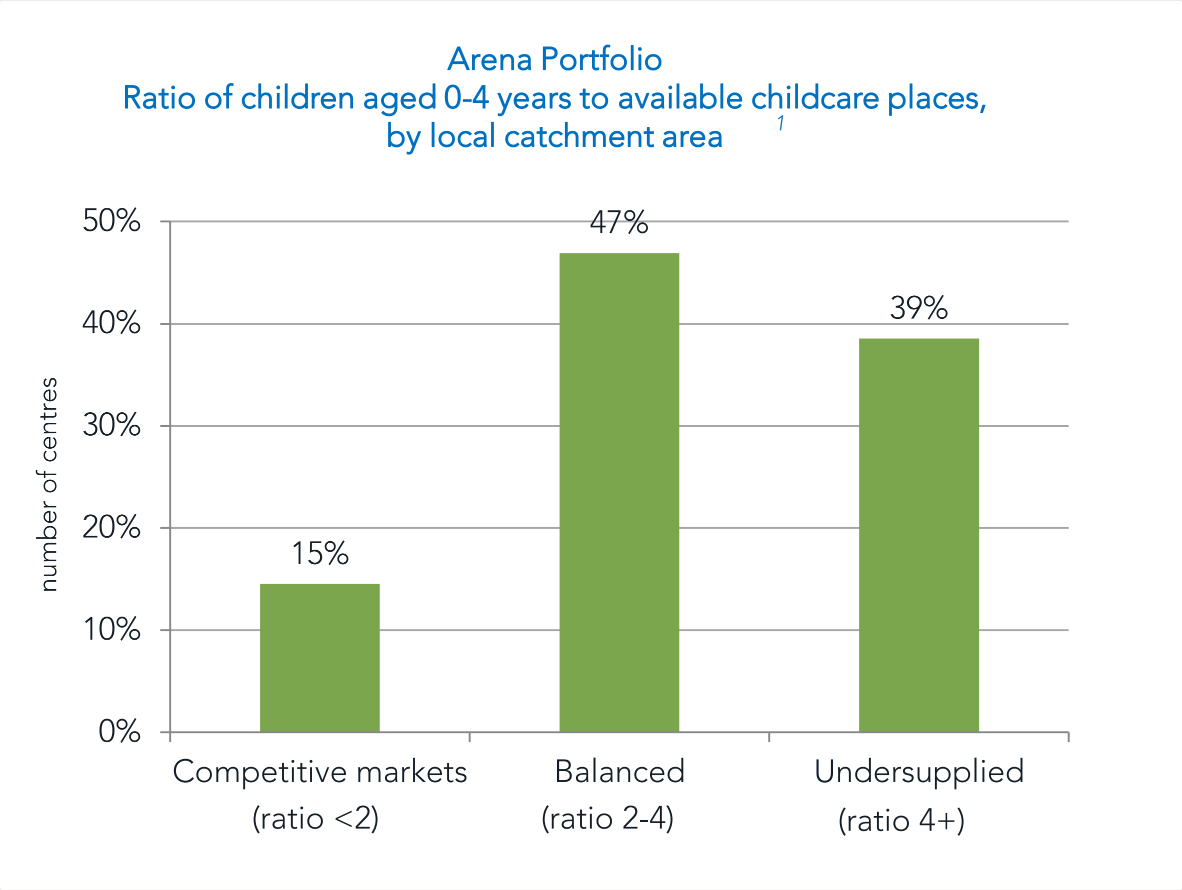
3.11 Childcare supply

Understanding micro-markets a key driver of decision making



> Ratio of children aged 0-4 years (demand) to available childcare places (supply) is an indicator of market equilibrium

> Arena uses this tool to:

- monitor existing portfolio to identify opportunities to expand, modify or sell assets
- analyse new opportunities, alongside population growth (future demand) and planning approvals (future supply)

> Arena estimates the industry average ratio currently sits at 3[2]

[1] *Ratio calculated based on information sourced from Business Geographics Pty Ltd and Arena databases.*
[2] *Arena estimate.*

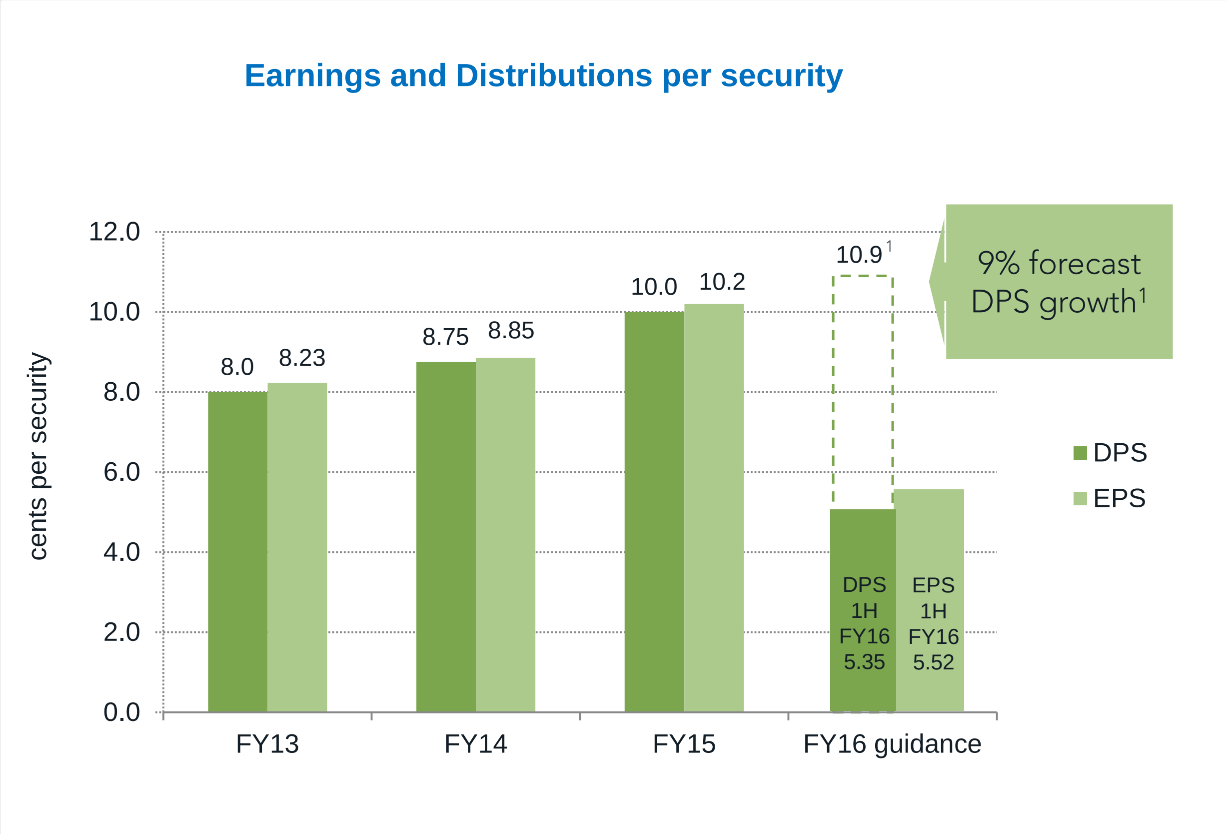
4

Outlook

4.1

Distribution guidance upgrade to 10.9 cps[1]

Forecast annual average distribution growth of 11% since listing in June 2013



> FY16 distribution guidance upgraded from 10.7 cps to 10.9 cps[1]

> Key drivers of FY16 distribution guidance increase:

- income from early completion of FY16 development projects
- lower borrowing costs
- leasing of vacancy

[1] *Estimated 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.*

4.2 Strategy, structure and team support performance

Delivering a strong comparative advantage

Specialised portfolio strategy

> Specialised sectors with favourable macro fundamentals driven by population growth or supply/demand imbalances

> Preferred lease characteristics with long lease terms, minimal outgoings and capex and fixed annual rent reviews

> Partnerships with quality tenants with focus on long-term operational profitability

Optimal management structure

> Internalised model delivers alignment and more efficient earnings growth

Pro-active management

> Specialised expertise in real estate and deep understanding of tenant business operations

> Actively identifying and implementing value-adding initiatives:

- working with tenants to leverage available business opportunities
- recycling capital to renew portfolio
- accessing the benefits of development

> Strong balance sheet and capital management with capacity to fund new opportunities

Positioned to deliver competitive earnings growth

5 Questions?

6 Appendices: Additional Information

6.1 Income statement

$ million	31 Dec 2015	31 Dec 2014	Change $m	Change (%)
Income				
Rental income	16.3	15.2	1.1	7
Other	0.3	0.1	0.2	200
Total Income	**16.6**	**15.3**	**1.3**	**8**
Direct property expenses	(0.4)	(0.6)	0.2	-33
Former Responsible Entity management fees	-	(1.4)	1.4	-100
Operating expenses	(1.5)	(0.3)	(1.2)	400
Finance costs	(2.1)	(2.5)	0.4	-16
Net Operating Profit / Distributable Income	**12.6**	**10.5**	**2.1**	**20**
Straight-line rental income	-	0.2	(0.2)	-100
Revaluation gain on investment properties	30.0	13.7	16.3	218
Change in fair value of derivatives	(0.8)	(1.9)	1.1	58
Stapling and other transaction costs	(0.2)	(1.1)	0.9	82
Other	(0.3)	-	(0.3)	-100
Statutory Profit	**41.4**	**21.5**	**19.9**	**93**
Distributable Income per security (EPS) (cents)	**5.52**	4.97	0.55	11
Distributions per security (DPS) (cents)	**5.35**	4.90	0.45	9

- 7% lease rental growth from existing assets and new developments over FY15
- Other income relates primarily to unlisted funds
- Responsible Entity management fees ceased post internalisation (mid-December 2014)
- Operating expenses now includes management costs and salaries post internalisation
- Lower borrowing costs due to lower average debt balance and lower cost of debt over the course of 1H16

6.2

Balance sheet

Secure financial position

$ million	31 Dec 2015	30 June 2015	Change $	Change %
Cash	8.4	10.9	(2.5)	-23
Receivables and other assets	6.0	8.5	(2.5)	-29
Investment properties	455.5	420.5	35.0	8
Intangibles	10.8	10.7	0.1	1
Total assets	**480.7**	**450.6**	**30.1**	**7**
Payables and other liabilities	13.5	16.0	(2.5)	-16
Borrowings	130.5	130.8	(0.3)	0
Derivatives	0.9	0.4	0.5	125
Total liabilities	**144.9**	**147.1**	**(2.2)**	**-1**
Net assets	**335.8**	**303.5**	**32.3**	**11**
Number of securities on issue (million)	230.2	228.3	1.9	1
Net asset value per security ($)	1.46	1.33	0.13	10
Gearing[1]	27.3	29.1	-180bps	-

> Cash includes funds for near term property acquisition settlements and development capex, plus liquid funds for AFSL

> Receivables includes asset sales proceeds

> Growth in investment property from development capex, net asset acquisitions and sales and asset revaluations

> Intangibles represent the management rights on internalisation

> Payables includes distribution provision and capex accruals

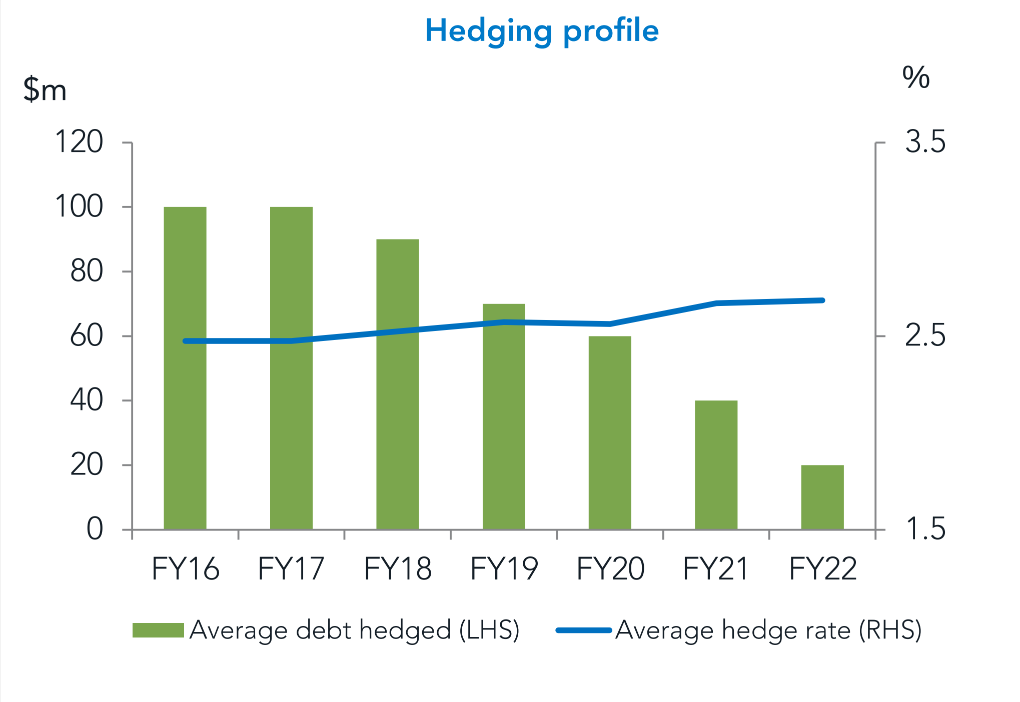
> DRP on during period

[1] *Gearing calculated as drawn borrowings/total assets.*

6.3

Interest rate management

Fixed rate maturity profile extended



	31 Dec 2015
Hedge cover (%)	76
Weighted average hedge interest rate (%)	2.48
Weighted average hedge term (years)	4.3

6.4

Portfolio value movement

Independent Valuations	Number of assets	Value ($m)	Passing Yield (%)	Movement (%)
Queensland	8	22.5	7.7	9.8
New South Wales	3	4.0	7.8	9.8
Western Australia	5	9.8	7.6	8.7
Victoria	17	29.5	7.1	8.4
Tasmania	1	1.4	8.2	10.7
South Australia	1	3.0	7.9	0.5
Total Independent Valuations – Childcare	35	70.2	7.4	8.7
Total Independent Valuations – Healthcare	7	74.6	7.6	10.5
Director Valuations	**Number of assets**	**Value ($m)**	**Passing Yield (%)**	**Movement (%)**
Queensland	62	127.5	7.9	9.0
New South Wales	23	38.9	7.4	1.8
Western Australia and Northern Territory	18	33.6	7.5	4.0
Victoria	32	64.7	7.1	6.3
Tasmania	5	8.3	8.0	7.9
South Australia	4	7.3	7.9	1.5
Development Sites	15	30.3	-	2.3
Total Director Valuations – Childcare	159	310.6	7.6	6.1
Portfolio Value	**201**	**455.5**	**7.6**	**7.1**

6.5

Childcare portfolio metrics

Active portfolio management has improved key ratios

Childcare portfolio overview	31 Dec 2015	30 Jun 2015	Change
Leased childcare centres	179	177	+1%
Available for sale / lease	-	2	-100%
Development sites	15	11	+36%
Total childcare properties	**194**	**190**	**+2%**
WALE (by income) (years)	9.2	9.3	-1%
Tenanted occupancy (%)	100	99	+1%
Average passing yield (%)	7.6	8.0	-40 bps
Property portfolio ($m)	381	350	+9%
Rental growth (like-for-like) (%)[1]	2.4	3.5	-110 bps
Portfolio composition			
Metropolitan (by value) (%)	52	52	-
Regional (by value) (%)	48	48	-
Purpose Built (by value) (%)	95.7	95.5	+0.2%

[1] No market rent reviews completed in first half of FY16.

6.6 Childcare state by state passing yields

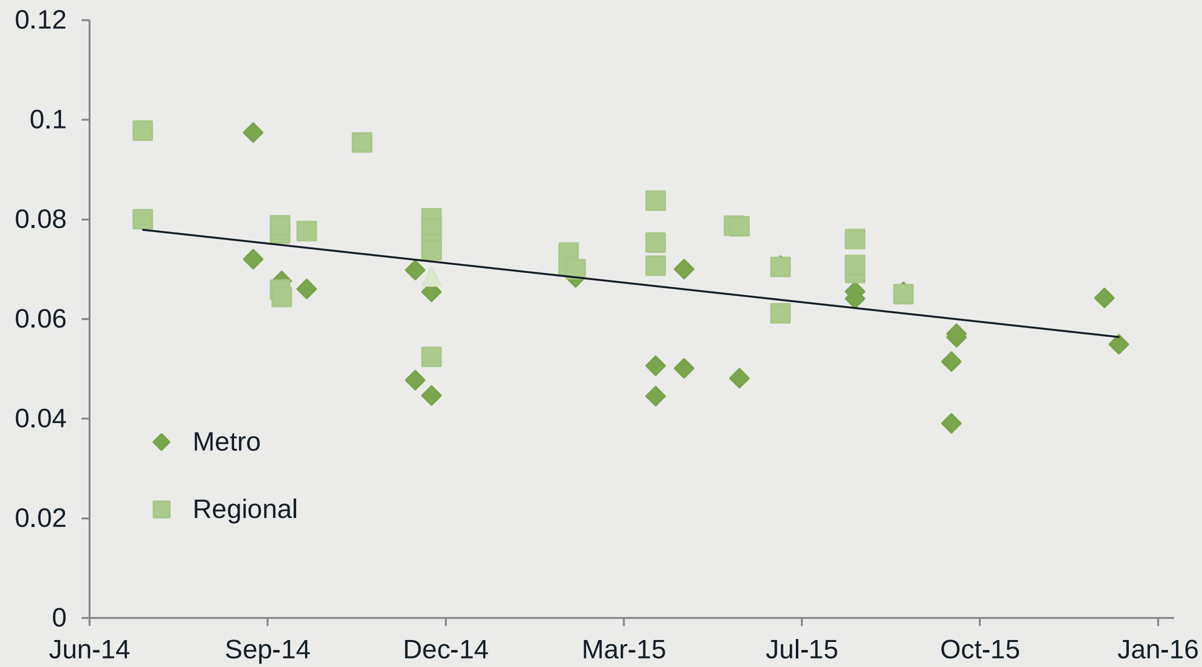
Strong cap rate compression

Childcare portfolio overview at 31 Dec 2015	Number of assets	Carrying value ($m)	Rent (pa) ($'000)	Passing yield (%)
Queensland	70	146.2	11,454	7.8
New South Wales	26	42.9	3,191	7.4
Victoria	49	94.2	6,666	7.1
Tasmania	6	9.8	782	8.0
South Australia	5	10.3	811	7.9
Western Australia	22	41.9	3,145	7.5
Northern Territory	1	1.5	124	8.5
Total childcare centres	**179**	**346.8**	**26,173**	**7.5**
Murarrie Office Component (leased)	–	3.8	326	8.6
Childcare development sites and WIP	15	30.2	120	–
Total other	**15**	**34.0**	**446**	**–**
Total property portfolio	**194**	**380.8**	**26,619**	**–**

6.7 Childcare property market sales evidence

Recent sales show childcare centre yields continuing to firm

Childcare transactions indicative yields
Eastern States (VIC, NSW, QLD)
(Jun 2014 – Jan 2016)



Source: Actual sales evidence collated by Arena.

- 13 freehold sales tracked in last six months
- Sales evidence indicates that average passing yields on transactions in the six months to December 2015 firmed by approximately 50 basis points over the previous six months
- Yield spread between metro and regional assets

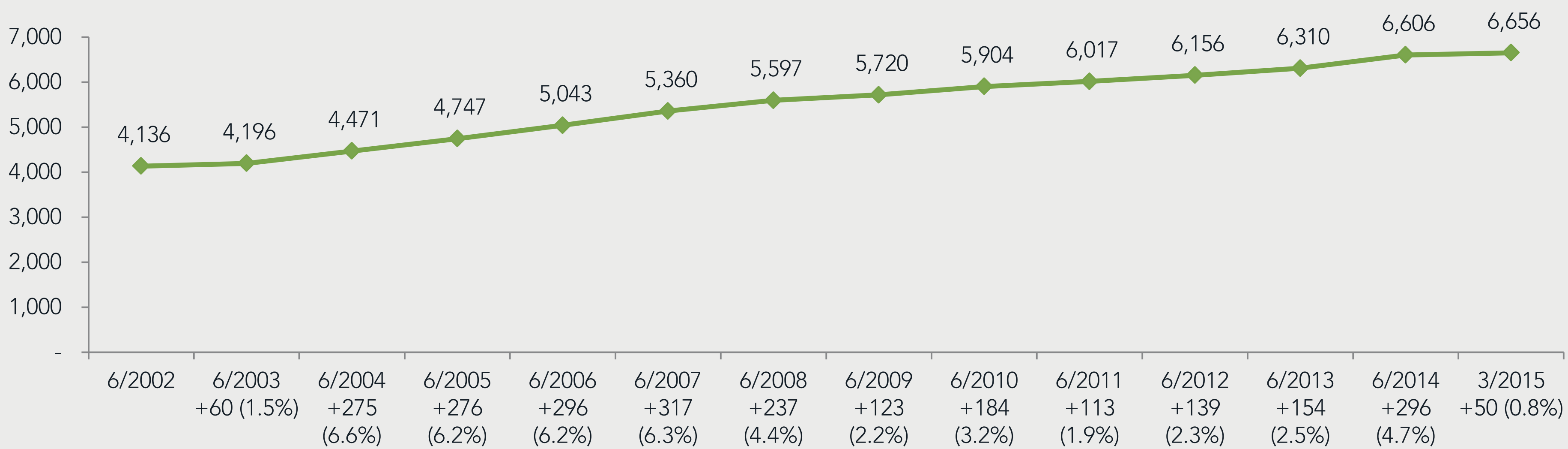
6.8

Historic supply of childcare centres

Growth in supply returning to pre-GFC levels

> Average increase of 150 centres per annum over the last five years

Number of long day care services in Australia

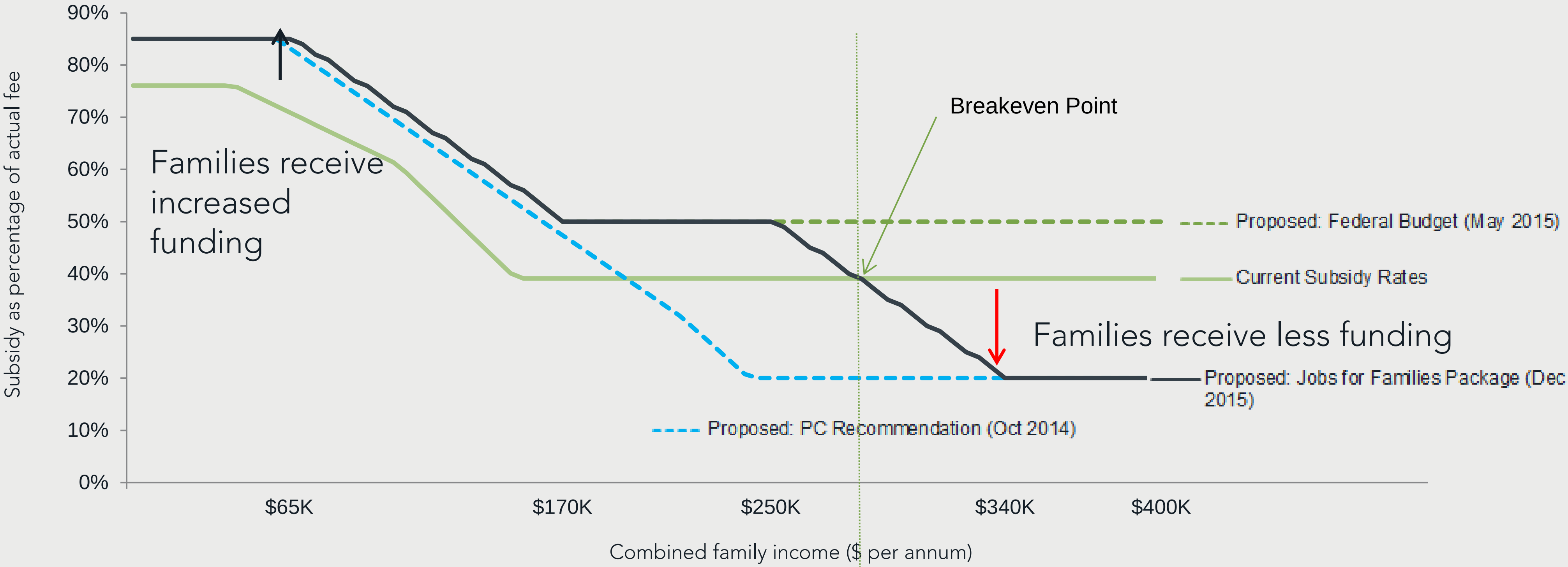


Source: Australian Government Department of Education and Training: Early Childhood and Child Care in Summary, March 2015.

6.9 Proposed changes to childcare government subsidies

Additional $3 billion of funding proposed

> Lower to middle income families reduced out of pocket expenses, expected to increase the number of children in care and hours of care



Note: Based on certain assumptions including one child in care, family meeting the activity test, assumed fixed daily fee within the benchmark price and standard 50 hour week

Source: Federal Government 'Jobs for Families' Childcare Package, December 2015

Directory

ASX Code: ARF

Arena REIT Limited
ACN 602 365 186

Arena REIT Management Limited
ACN 600 069 761
AFSL 465754

71 Flinders Lane
Melbourne VIC 3000
+61 3 9093 9000
info@arena.com.au

Managing Director
Bryce Mitchelson
+61 408 275 375
bryce.mitchelson@arena.com.au

Investor Relations Manager
Susie McPherson
+61 434 604 591
susie.mcpherson@arena.com.au

Registry
Boardroom Limited
Level 12, 225 George Street
Sydney NSW 2001

Investor Services
Freecall 1800 008 494

Visit us at **www.arena.com.au**

Arena