20 FEBRUARY 2017

FY17 INTERIM RESULTS

Strong earnings growth and distribution upgrade

FINANCIAL HIGHLIGHTS

- Net Operating Profit of $14.2 million, up 13% on the prior corresponding period (pcp)
- Statutory Net Profit of $59.6 million, up 44% on pcp
- Earnings per security (EPS) of 6.11 cents, up 11% on pcp
- Distributions per security (DPS) of 5.85 cents, up 9% on pcp
- Total Assets of $584 million, up 14% on 30 June 2016
- Net Asset Value (NAV) per security of $1.74, up 13% on 30 June 2016
- FY17 DPS guidance upgrade to 12.0 cents per security[1], reflecting growth of 10% on FY16

Arena REIT (Arena) has today announced a strong first half result, with net operating profit for the six-months ended 31 December 2016 of $14.2 million, up 13% on the prior corresponding period.

Key contributors to the result were rental income growth from rent reviews, portfolio management initiatives and development projects completed in FY16 and FY17, as well as lower relative borrowing costs.

This result equated to earnings per security (EPS) of 6.11 cents, an increase of 11% over the prior corresponding period. In line with previous guidance, Arena has paid a half-year distribution of 5.85 cents per security, up 9% on the prior corresponding period.

Statutory net profit for the half-year was $59.6 million (up 44%), as a result of both the increase in net operating profit and a $43.5 million increase in property valuations. The revaluation uplift also contributed to a $0.20 increase in Net Asset Value (NAV) per security, up from $1.54 at 30 June 2016 to $1.74 at 31 December 2016.

Commenting on today's result, Arena's Managing Director Mr Bryce Mitchelson said "Arena's investment strategy continues to deliver solid results. Our real estate performance is underpinned by supportive macroeconomic themes, favourable lease structures and successful execution of a high quality, earnings accretive development program. As we continue to grow, our active management of capital and the efficiency of our business model provides further opportunity for earnings growth."

Following the strong first half result, Arena has today announced an upgrade to FY17 DPS guidance to 12.0 cents per security[1], reflecting growth of 10% on FY16.

[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.*

Arena REIT Limited (ACN 602 365 186)
Arena REIT Management Limited ACN 600 069 761 AFSL No. 465754 as responsible entity of Arena REIT No. 1 (ARSN 106 891 641) and Arena REIT No. 2 (ARSN 101 067 878)

Level 5, 41 Exhibition Street
Melbourne VIC 3000
www.arena.com.au

Locked Bag 32002 Collins Street East
Melbourne VIC 8003
info@arena.com.au

T +61 3 9093 9000
Freecall 1800 008 494
F +61 3 9093 9093

PORTFOLIO HIGHLIGHTS

- Average rent review increase of 4.9%
- Seven five-year lease options renewed (100% renewal rate)
- 100% occupancy maintained
- Weighted average lease expiry (WALE) extended to 10.6 years
- Portfolio valuation uplift of $43.5 million
- Portfolio weighted average passing yield 6.9%
- Seven early learning development projects completed at a cost of $18.2 million
- Development pipeline of 12 early learning projects at a forecast cost of $57 million

Rent reviews delivered 4.9% growth

Annual rent reviews have been completed over 54% of portfolio income in the first half of FY17, with an average rent increase of 4.9% achieved. This increase was buoyed by the early renegotiation of 12 leases to new 20 year terms at market rents.

In the next six months, the remaining 46% of portfolio income will be subject to rent reviews, of which 38% is subject to review at 'Fixed' or 'Greater of 2.5% or CPI'; 5% is subject to review at CPI and 3% is subject to market review (capped at 7.5%).

Portfolio management adding value – WALE extended to 10.6 years

In an active six month period, occupancy was maintained at 100% and the portfolio's weighted average lease expiry (WALE) was increased to 10.6 years through the renewal of seven lease options, lease commencements at seven completed development projects and the renegotiation of 12 existing leases on new 20 year terms.

Portfolio revaluation uplift of $43.5 million

Arena's portfolio of 208 properties was revalued during the first half of FY17, with 38 properties independently valued and the remaining 170 at directors' valuation. A revaluation uplift of $43.5 million was recorded, equivalent to an increase of 8.4%.

The portfolio's weighted average passing yield firmed 40 basis points to 6.9%, as a result of rental growth, portfolio management initiatives that extended the WALE, and evidence of tightening in transaction yields in the direct property market.

	Valuation			Weighted average passing yield	
	31 Dec 2016	Variance		31 Dec 2016	Variance
	$m	$m	%	%	(bps)
Early Learning	482.5	41.0	9.3	6.84	(47)
Healthcare	80.7	2.5	3.2	7.17	(8)
Total Portfolio	**563.2**	**43.5**	**8.4**	**6.90**	**(40)**

Accretive development program delivering high quality assets

Seven Early Learning Centre (ELC) development projects were completed during the first half of FY17, for a total cost of $18.2 million and generating an initial yield on cost of 8.4%.

Five of the seven completed projects were developed in conjunction with the State of Victoria's PPP primary school development program. Leased to YMCA, these ELC's provide an integrated solution to early learning and primary schooling in high population growth areas of Melbourne and its surrounds. These properties were secured on a leasehold basis, and ownership will revert to the State of Victoria on expiry of the 26 year lease term.

Development pipeline replenished

The ELC development pipeline now comprises 12 projects and has a forecast cost of $57 million. One project is due for completion in the second half of FY17, with the remainder due for completion in FY18. Of these, three are located in NSW, and are being developed on a fund-through basis with an existing tenant.

Commenting on these projects, Arena's Head of Property, Mr Rob de Vos said "Having successfully added a number of new metropolitan Victorian assets to our portfolio over the last 18 months, we are pleased to now be increasing our portfolio weighting to NSW. The initial yield on cost on these projects is 6.4%, which reflects both the tighter market cap rates for these locations, and the substantial transfer of planning and construction risk to the tenant rather than Arena."

The weighted average initial yield on cost for the entire $57 million development pipeline is 7.1%.

Mr de Vos said "When assessing development opportunities, we look for projects that will provide a competitive advantage, to provide our tenants with the foundation to operate profitably over the long-term. Ultimately, this is achieved through partnering with our tenants, sourcing superior physical locations supported by demographic analysis, and managing development costs to ensure sustainable rents for operators and attractive investment returns for investors."

CAPITAL MANAGEMENT HIGHLIGHTS

- Gearing 27.8%, up from 26.8% at 30 June 2016
- Additional $30 million borrowing facility secured to fund the development pipeline
- Weighted average cost of debt 3.75% pa, down from 3.85% pa at 30 June 2016
- 71% of borrowings hedged at weighted average hedge term of 4.0 years and an average swap rate of 2.37%

Efficiently funding growth – additional $30 million borrowing capacity secured

Borrowings increased to $162.5 million at 31 December 2016, up from $138 million at 30 June 2016. These funds were used to fund acquisitions and development capital expenditure, with $30 million of the $57 million development pipeline already funded at 31 December 2016.

In January 2017 Arena secured an additional borrowing facility of $30 million, bringing the total facility size to $205 million. These additional funds will be used to fund remaining development commitments and new opportunities. The distribution reinvestment plan remains in operation, having contributed $3.3 million in new equity during the half-year.

Importantly, despite the higher average debt balances, finance costs remained stable, reflecting the positive impact of the December 2015 refinance, together with lower market interest rates. In line with Arena's hedging policy, two new hedges were entered into during the period – maintaining the proportion of hedged debt at 71% and the weighted average hedge term at 4.0 years.

Market outlook

Demand for high quality and well located early learning and healthcare property continues to be underpinned by growing community demand and supportive demographic trends. In February 2017, the federal government announced its intention to combine the existing 'Jobs for Families package' reforms with a number of other savings measures in the Omnibus Savings and Childcare Reform Bill 2017. If passed, this legislation will see a further $3 billion invested into early childhood education from 1 July 2018.

FY17 distribution guidance upgrade to 12.0 cents per security[2]

Following a strong first half result, Arena has today announced an upgrade to FY17 DPS guidance to 12.0 cents per security[2]. This reflects growth of 10% over FY16, and compound average growth in DPS since listing in June 2013 of 10% per annum.

– ENDS –

INVESTOR CONFERENCE CALL
Arena will be hosting a conference call at 11.00am today (Monday 20 February 2017) to present the FY17 interim results. A copy of the interim results presentation has also been lodged with the ASX and is available on Arena's website (www.arena.com.au). To participate in the investor teleconference, please click here to register.

For further information, please contact:

Bryce Mitchelson
Managing Director
+61 3 9093 9000
bryce.mitchelson@arena.com.au

Susie McPherson
Head of Investor Relations and Marketing
+61 3 9093 9000
susie.mcpherson@arena.com.au

About Arena REIT

Arena REIT is an ASX300 listed property group that owns, manages and develops specialised real estate assets across Australia. Our current portfolio of social infrastructure assets is leased to a diversified tenant base in the growing early learning and healthcare sectors. To find out more, please visit www.arena.com.au

[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.*

Important Notice

This document has been prepared by Arena REIT (Arena) comprising Arena REIT Limited (ACN 602 365 186), Arena REIT Management Limited (ACN 600 069 761 AFSL No. 465754) as responsible entity of Arena REIT No.1 (ARSN 106 891 641) and Arena REIT No.2 (ARSN 101 067 878). The information contained in this document is current only as at the date of this document or as otherwise stated herein. This document may not be reproduced or distributed without Arena's prior written consent. The information contained in this document is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Arena has not considered the investment objectives, financial circumstances or particular needs of any particular recipient. You should consider your own financial situation, objectives and needs, conduct an independent investigation of, and if necessary obtain professional advice in relation to, this document. Past performance is not an indicator or guarantee of future performance.

Except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions, or as to the reasonableness of any assumption, contained in this document. By receiving this document and to the extent permitted by law, you release Arena and its directors, officers, employees, agents, advisers and associates from any liability (including, without limitation, in respect of direct, indirect or consequential loss or damage or any loss or damage arising from negligence) arising as a result of the reliance by you or any other person on anything contained in or omitted from this document.

This document is for information purposes only and should not be considered as a solicitation, offer or invitation for subscription, purchase or sale of securities in any jurisdiction, or to any person to whom it would not be lawful to make such an offer or invitation.

This document contains forward-looking statements including certain forecast financial information. The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "outlook", "upside", "likely", "intend", "should", "could", "may", "target", "plan", and other similar expressions are intended to identify forward-looking statements. The forward-looking statements are made only as at the date of this announcement and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Arena and its directors. Such statements are not guarantees of future performance and actual results may differ materially from anticipated result, performance or achievements expressed or implied by the forward-looking statements. Other than as required by law, although they believe there is a reasonable basis for the forward-looking statements, neither Arena nor any other person (including any director, officer, or employee of Arena or any related body corporate) gives any representation, assurance or guarantee (express or implied) as to the accuracy or completeness of each forward-looking statement or that the occurrence of any event, result, performance or achievement will actually occur. You should not place undue reliance on any of the forward-looking statement.