

20 JUNE 2017

REVALUATION UPLIFT OF \$23.8 MILLION AND WALE EXTENDED TO 12.8 YEARS

Arena REIT Group (Arena) has today announced the following update in relation to its portfolio:

- **Portfolio revaluations** – a net revaluation uplift of \$23.8 million for the six month period ending 30 June 2017; this represents an increase of 4.2% over book value and an increase in Net Asset Value per security of \$0.10;
- **Lease terms extended** – lease terms have been extended at 102 properties by an average of 6.2 years, resulting in the portfolio weighted average lease expiry (WALE) increasing to 12.8 years;
- **Strong Early Learning Centre (ELC) market rent reviews** – ELC portfolio market rent reviews have been finalised reflecting an average of 6.5% for FY16, and 6.2% for FY17. In addition, all FY18 ELC market rent reviews have been completed at an average increase of 6.3%; and
- **Development completions** – over FY17, eight development projects will be completed and four new projects have been added. The development pipeline now comprises nine projects with an expected total capital investment of \$48 million.

Commenting on the update, Arena’s Managing Director, Mr Bryce Mitchelson said “It has been an active six month period with several positive portfolio outcomes achieved. This has flowed through to another strong revaluation result for the portfolio. We believe the portfolio’s average passing yield of 6.8% remains attractive in the context of recent sales evidence and the low interest rate environment.”

Portfolio revaluation

A total of 63 ELC assets and three healthcare assets were independently valued as at 30 June 2017, with the remaining ELC and healthcare assets and ELC development projects subject to Directors valuation in accordance with Arena’s valuation policy.

A summary of the \$23.8 million revaluation uplift by portfolio is detailed below:

	Revaluation movement (since 31-Dec-16)		Weighted average passing yield 30-Jun-17	
				Variance
ELC portfolio	\$16.9m	3.7%	6.73%	(15 bps)
Healthcare portfolio	\$3.1m	3.9%	6.92%	(10 bps)
ELC development projects*	\$3.8m	10.0%	-	-
Total portfolio	\$23.8m	4.2%	6.76%	(14 bps)

* In recognition of projects nearing completion

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)

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Approximately 50% of the revaluation uplift is attributable to income growth over the six month period and 50% as a consequence of the firming in the weighted average passing yield by 14 basis points to 6.76%.

For the financial year ending 30 June 2017, revaluations have contributed a total uplift of \$67.3 million or 13.7% to the value of investment properties.

Lease terms extended – WALE increased to 12.8 years

During the period, lease terms were extended at 102 ELC properties by an average of 6.2 years, with no tenant incentives paid or changes to the rent review profile. In total, these properties represent approximately 40% of Arena's portfolio income.

Arena's Head of Property, Mr Robert de Vos said "Working in partnership with our tenants has seen us deliver another win-win outcome for both parties. The lease term extensions reflect positively on the underlying quality and business profitability of Arena's ELC portfolio. Arena has consistently maintained one of the longest portfolio WALE's in the A-REIT sector."

As a result of this transaction, Arena's portfolio WALE has increased as at 30 June 2017 to 12.8 years.

FY16, FY17 and forward FY18 ELC market rent reviews completed

Over the past six months, market rent reviews have been actively negotiated across the portfolio:

- **FY16 (31 market rent reviews)** – all outstanding market rent reviews for the FY16 have now been completed resulting in a total average increase of 6.5%;
- **FY17 (13 market rent reviews)** – all FY17 ELC market rent reviews have been completed reflecting an increase of 6.2%; and
- **FY18 (4 market rent reviews)** – all FY18 ELC market rent reviews have now also been completed, reflecting an average increase of 6.3%.

When combined with fixed, CPI and CPI ratchet reviews¹, as well as the rental uplift from leases negotiated in 1HFY17, the average annual like-for-like rental increase across the portfolio for FY17 is 4.1%.

Development portfolio update

A total of eight projects will be completed over FY17, with four new projects being added to the pipeline. Arena's development pipeline now comprises nine projects, with an expected total capital investment of \$48 million. These projects are all expected to be completed over the next 18 months.

¹ *CPI ratchet reviews are defined as reviews that are the higher of either 2.5% or CPI.*

FY17 Annual Results

Portfolio revaluations as at 30 June 2017 remain subject to review by Arena's external auditors. Further details of revaluations, portfolio performance and financial results will be provided in the FY17 Annual Results scheduled for announcement in August 2017.

– ENDS –

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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, visit www.arena.com.au