22 FEBRUARY 2018

FY18 INTERIM RESULTS

Strengthening the resilience of earnings

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of $16.8 million, up 18% on the prior corresponding period (pcp)
- Earnings per security (EPS) of 6.42 cents, up 5.1% on pcp
- Distributions per security (DPS) of 6.40 cents, up 9.4% on pcp
- $65 million equity raising in August 2017 to fund portfolio acquisition
- Total Assets of $704.3 million, up 13% on 30 June 2017
- Net Asset Value (NAV) per security of $1.93, up 5% on 30 June 2017
- FY18 DPS guidance confirmed at 12.8 cents per security[1], reflecting growth of 6.7% on FY17

Solid financial performance

Arena REIT (Arena) has today announced a net operating profit for the half-year ended 31 December 2017 of $16.8 million, up 18% on the prior corresponding period.

Key contributors to the result were rental income growth from annual rent reviews and new rental income from acquisitions and development projects completed in FY17 and the first half of FY18.

This result equated to earnings per security (EPS) of 6.42 cents, an increase of 5.1% over the prior corresponding period. Arena has paid a half-year distribution of 6.40 cents per security, up 9.4% on the prior corresponding period.

The payout ratio in the first half reflects the impact on first half EPS of the equity raising in August 2017. The payout ratio is expected to normalise over the course of the full financial year to be consistent with prior periods.

Statutory net profit for the half-year was $37.1 million. This was down 38% on the prior period, primarily due to the scale of revaluation gains ($21.3 million vs $43.2 million in prior period).

Arena's total assets increased by 13% to $704.3 million, as a result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The revaluation uplift contributed to a $0.09 increase in Net Asset Value (NAV) per security to $1.93 at 31 December 2017.

FY18 DPS guidance reaffirmed

Arena has today reaffirmed its FY18 DPS guidance of 12.8 cents per security[1], reflecting growth of 6.7% on FY17.

[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.*

CAPITAL MANAGEMENT HIGHLIGHTS

- $65 million equity raised to fund August 2017 portfolio acquisition
- Gearing 24%, down from 27.5% at 30 June 2017
- Borrowing facility refinanced to extend average term to 4.9 years and increase to $230 million
- Stable weighted average cost of debt 3.80% pa
- 75% of borrowings hedged for an extended average term of 6.3 years at 2.42% p.a.

Strengthened financial position

During the first half, Arena has undertaken a number of initiatives aimed at strengthening its financial position:

- **$65 million equity raising to fund portfolio acquisition –** Arena raised $55 million via an institutional placement and a further $10 million via a security purchase plan. The funds were used to 100% equity fund the development portfolio acquisition in August 2017. An additional $1.9 million was raised via the DRP, which remains open;
- **refinancing of debt facility to extend duration and increase limit –** Arena renegotiated its debt facility to extend the weighted average debt duration to 4.9 years (from 2.5 years at 30 June 2017) and increased the facility limit to $230 million. Arena's weighted average cost of debt[2] is stable at 3.8% p.a. at 31 December 2017; and
- **interest rate hedging extended –** Interest rate hedging was also extended during the period, with the weighted average hedge duration lengthened to 6.3 years at an average rate of 2.42% (4.3 years at 2.39% as at 30 June 2017). At 31 December 2017, 75% of drawn debt was hedged.

Capacity to fund new opportunities

At 31 December 2017, Arena's gearing was 24%, down from 27.5% at 30 June 2017 with undrawn debt capacity of $61 million to fund development capex (forecast at $22 million) and new investments.

Commenting on Arena's financial position, Managing Director Mr Bryce Mitchelson said "Over the past six months we have strengthened our financial position by raising new equity, reducing gearing and refinancing our borrowing facility to extend duration and capacity."

PORTFOLIO HIGHLIGHTS

- Average like-for-like rent review increase of 2.5%
- 100% occupancy maintained
- Weighted average lease expiry (WALE) extended to 13.1 years
- Portfolio revaluation uplift of $21.3 million
- Portfolio weighted average passing yield 6.55%
- Portfolio of nine ELC properties in development acquired for a total cost of $65 million[3]
- One operating ELC acquired and one development site divested
- Eleven ELC development projects completed at a total cost of $68 million
- Development pipeline of seven ELC projects at a forecast total cost of $45 million

[2] *Includes all costs*
[3] *Total cost includes property purchase price and project costs of $63.3 million plus stamp duty and associated transaction costs.*

Like-for-like rent review increase of 2.5%

Annual rent reviews have been completed over 54% of portfolio income in the first half of FY18, with an average like-for-like rent increase of 2.5% over passing rent achieved. The majority of the reviews were either 'Fixed' or 'Greater of 2.5% or CPI'. As previously advised, all four market reviews for FY18 were completed at an average increase of 6.3%.

WALE extended to 13.1 years

In an active six month period, occupancy was maintained at 100% and the portfolio's weighted average lease expiry (WALE) was increased to 13.1 years (from 12.8 years at 30 June 2017) following lease commencements at completed development projects.

Acquisition of nine-property development portfolio

In August 2017 Arena acquired a portfolio of nine Early Learning Centre (ELC) properties in development for a total cost of $65 million[4]. The properties were acquired on a fund through basis[5], with Arena forecast to earn a yield on cost of 6.25%. At settlement, Arena paid an initial $27.6 million, followed by further payments as the projects progress to completion.

All properties are to be tenanted by Green Leaves Early Learning Centres, an existing high performing tenant in the Arena portfolio. Each lease is for a 20 year initial term, has a triple net structure, and includes annual rent reviews at a minimum of 3% per annum, with a market rent review at each 10 year anniversary.

Portfolio revaluation uplift of $21.3 million

At 31 December 2017, Arena's property portfolio comprised 207 ELC properties and development sites (88% of portfolio value) and seven healthcare properties (12% of portfolio value). All 214 properties were revalued during the first half of FY18, with 42 properties independently valued and the remaining 172 at directors' valuation. A revaluation uplift of $21.3 million was recorded, equivalent to an increase of 3.6%.

The portfolio's weighted average passing yield firmed 21 basis points to 6.55%. The weighted average passing yield on the ELC portfolio firmed 24 basis points to 6.49%, comprising a freehold portfolio passing yield of 6.43% and a leasehold portfolio passing yield of 8.6%. The valuation of the healthcare portfolio remained relatively stable. A summary is detailed below:

	No. of Properties	31 Dec 2017 Valuation ($m)	Revaluation movement (since 30 June 2017) $m	%	Weighted average passing yield 31-Dec-17 %	Change bps
ELC portfolio						
Leasehold portfolio	6	15.6	0.2	1.9	8.60	-
Freehold portfolio	201	577.1	20.7	4.4	6.43	(25)
Total ELC portfolio	207	592.7	20.9	4.1	6.49	(24)
Healthcare portfolio	7	83.9	0.4	0.5	6.95	3
Total Portfolio	**214**	**676.6**	**21.3**	**3.6**	**6.55**	**(21)**

[4] *Total cost includes property purchase price and project costs of $63.3 million plus stamp duty and associated transaction costs.*
[5] *A fund through acquisition involves the acquisition of land and progressive payment of development costs on which a return is derived.*

Eleven development projects completed

Eleven ELC development projects were completed during the first half of FY18, for a total cost of $68 million and an initial yield on cost of 6.8%. Four of the projects were part of the August 2017 development portfolio acquisition, and the remaining seven were existing projects.

	Number of projects	Total cost ($m)	Initial yield on cost (%)	Average lease term (yrs)	Long day care places
Leasehold portfolio	1	2.5	8.7	25.3	108
Freehold portfolio	10	65.5	6.8	19.6	1,246
Total Portfolio	**11**	**68.0**	**6.8**	**19.8**	**1,354**

ELC market commentary

In the early learning sector, some centre operators have experienced pressure on occupancies as a result of:

- **reduced childcare affordability for families reaching their subsidy cap prior to the end of the financial year –** The new childcare government funding package will commence in July 2018. This funding is targeted at improving the affordability of childcare for lower and middle income working families, and is expected to increase childcare participation for these families over time. More immediately, it is expected to alleviate the affordability pressures faced by the majority of families that are currently reaching their subsidy cap prior to the end of each financial year.
- **an increase in new ELC supply entering the market –** An estimated 276 net new centres (+3.9%) opened in CY2017 (303 new centres, 27 closed centres)[6], and an estimated 324 centres are currently in construction[7], with the majority expected to complete in the next 12 months. This equates to an estimated additional 4.4% of new centres entering the market (excludes any closures that may occur).

These factors have contributed to a moderation in growth in average fees, with growth in the year to March 2017 of 4.0%[8] (10 year average growth of 6.8%)[8].

Commenting on Arena's portfolio, Head of Property Mr Rob de Vos said "Against this backdrop, we continue to closely monitor the underlying operating performance of our portfolio of tenants. Occupancy has remained stable and in aggregate, the portfolio's tenant operations are more profitable than the same time last year and rent affordability (net rent to gross revenue) has remained relatively stable at 10.9%."

Development pipeline of $45 million

The development pipeline now comprises seven ELC projects and has a forecast cost of $45 million ($22 million forecast capital expenditure outstanding). The weighted average initial yield on cost for the development pipeline is 6.3%. Six of the seven projects are due for completion in the second half of FY18, with one project due for completion in FY19.

[6] *Source: Business Geographics, February 2018.*
[7] *Source: Business Geographics, February 2018. Excludes projects with approved Development Applications that have not yet commenced construction, and Development Applications that have not yet been approved.*
[8] *Australian Government 'Early Childhood and Child Care in Summary' Report, January 2018.*

Mr de Vos said "The return profile of projects in the current pipeline reflects our preference at this point in the cycle to have a higher weighting to projects that offer a lower risk profile throughout development. Our core development focus remains on securing long term quality investment assets that exhibit Arena's preferred property characteristics and generate a predictable income stream."

OUTLOOK

FY18 distribution guidance reaffirmed at 12.8 cents per security[9]

Following announcement of the first half result, Arena has today reaffirmed its FY18 DPS guidance at 12.8 cents per security[9]. This reflects growth of 6.7% over FY17, and compound annual growth in DPS since listing in June 2013 of 9.3% per annum[10].

Mr Mitchelson said "With a strengthened balance sheet and available funding capacity we are focussed on identifying attractive investment opportunities to leverage our real estate and development expertise to grow earnings and build long-term value for investors."

– ENDS –

INVESTOR CONFERENCE CALL

Arena will be hosting a conference call at 2.30pm today (22 February 2018) to present the FY18 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.

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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, please visit www.arena.com.au

[9] *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.*
[10] *Forecast FY18 distribution per security growth and five year forecast DPS Compound Annual Growth Rate (CAGR) are based on FY18 distribution guidance.*

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