19 FEBRUARY 2019

HY19 RESULTS

Strong core earnings, lease extensions and acquisitions

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of $18.3 million, up 9.3% on the prior corresponding period (pcp)
- Earnings per security (EPS) of 6.77 cents, up 5.5% on pcp
- Distributions per security (DPS) of 6.75 cents, up 5.5% on pcp
- Total Assets of $763.7 million, up 5.2% on 30 June 2018
- Net Asset Value (NAV) per security of $2.03, up 3% on 30 June 2018

New investment supporting strong operating earnings

Arena REIT (Arena) has today announced a net operating profit for the half-year ended 31 December 2018 of $18.3 million, up 9.3% 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 FY18 and HY19.

This result equated to earnings per security (EPS) of 6.77 cents, an increase of 5.5% over the prior corresponding period. Arena has paid a half-year distribution of 6.75 cents per security, up 5.5% on the prior corresponding period.

Statutory net profit for the half-year was $34.2 million. This was down 7.8% on the prior period, primarily due to the scale of revaluation gains ($18.6 million vs $21.3 million in prior period).

Arena's total assets increased by 5.2% to $763.7 million, as a result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The revaluation uplift contributed to a $0.06 increase in Net Asset Value (NAV) per security to $2.03 at 31 December 2018.

PORTFOLIO HIGHLIGHTS

- Average like-for-like rent review increase of 3.1%
- 100% occupancy maintained
- Weighted average lease expiry (WALE) extended to 14.2 years
- Healthcare portfolio leases with Healius extended from an average of 4 years to 14.6 years
- Portfolio revaluation uplift of $18.6 million
- Portfolio weighted average passing yield 6.46%
- Two operating ELCs and two ELC development sites acquired
- Three development project completions delivered
- Development pipeline of four ELC projects at a forecast total cost of $21 million
- Post balance date acquisition of $24 million portfolio of specialist disability accommodation properties

Average like-for-like rent review increase of 3.1%

Annual rent reviews have been completed over 57% of portfolio income in HY19, with an average like-for-like rent increase of 3.1% over passing rent achieved. The average increase in market rent reviews achieved in HY19 was 6.3%.

Partnership approach to healthcare portfolio lease extension

Arena's healthcare portfolio leases with Healius (formerly Primary Health Care Limited) were extended from an average of 4 years to 14.6 years during HY19 with the expiries on the initial lease terms now staggered from FY29 to FY36. The net healthcare portfolio valuation increased from $85.4 million to $96.3 million.

WALE extended to 14.2 years

Occupancy was maintained at 100% and the portfolio's weighted average lease expiry (WALE) was increased to 14.2 years (from 12.9 years at 30 June 2018) following the extension of leases over the healthcare portfolio and ELC acquisitions and development completions.

Portfolio revaluation uplift of $18.6 million

At 31 December 2018, Arena's property portfolio comprised 211 ELC properties and development sites (87% of portfolio value) and seven healthcare properties (13% of portfolio value). All 218 properties were revalued during HY19, with 40 properties independently valued and the remaining 178 at directors' valuation. A revaluation uplift of $18.6 million was recorded, equivalent to an increase of 2.7%.

The portfolio's weighted average passing yield firmed 6 basis points to 6.46%. The weighted average passing yield on the ELC portfolio was in-line with 30 June 2018. The valuation of the healthcare portfolio firmed 65 basis points to 6.20%.

	No. of	31 Dec 18 Valuation	Revaluation movement (since 30 June 2018)		Weighted average passing yield 31-Dec-18	Change
	Properties	($m)	$m	%	%	bps
ELC portfolio	211	646.6	9.4	1.5	6.50	4
Healthcare portfolio	7	96.3	9.2	10.8	6.20	(65)
Total Portfolio	**218**	**742.9**	**18.6**	**2.7**	**6.46**	**(6)**

Acquisitions and development project completions in HY19

Two operating ELC properties were acquired at a net initial yield on cost of 6.7% with a weighted average lease term of 17.8 years. Three ELC development projects were completed at a net initial yield on cost of 6.3% on new 20 year leases and two new ELC development sites were acquired.

Post balance date acquisition of specialist disability accommodation portfolio

Arena has settled the acquisition of a $24 million portfolio of three specialist disability accommodation properties in metropolitan Adelaide as announced to ASX on 18 February 2019. The properties were acquired on an initial income yield of 6% on the purchase price, have an initial 15 year lease term and the rent will be reviewed annually by CPI+0.5%. The properties are all leased to SACARE, a leading provider of disability care and rehabilitation services in South Australia.

This acquisition is consistent with Arena's strategy to grow and diversify its existing healthcare portfolio and further diversify its portfolio of social infrastructure property. The quality of the assets, our tenant partner and the underlying demand for the services they provide are demonstrative of the characteristics Arena seeks when considering such opportunities.

Commenting on the acquisition, Arena's Managing Director, Mr Rob de Vos said "We are pleased to have acquired this portfolio of high quality, specialised high care facilities which enable people with a disability to live enriched and fulfilled lives."

ELC supply update

New ELC supply growth slowed in the final quarter of calendar year 2018 with net 35 ELCs added to the market[1]. This represents annualised growth of 140 centres versus 275 actual centres added in calendar year 2018[1] and 291 actual centres added in calendar year 2017[1]. Some centres which were expected to be delivered in calendar year 2018 are now expected to be delivered in calendar year 2019[2].

Mr Rob de Vos said "Our tenant partners have reported an overall positive impact from the introduction of the Child Care Subsidy with their centre occupancy rate increasing over the half year to 31 December 2018."

Development pipeline of $21 million

The development pipeline now comprises four ELC projects with a forecast total cost of $21 million ($11 million forecast capital expenditure remains outstanding). The weighted average initial yield on cost for the development pipeline is 6.7%. One of the four projects is due for completion in the second half of FY19 with the balance due in FY20.

CAPITAL MANAGEMENT HIGHLIGHTS

- Gearing 25.7%, increased from 24.7% at 30 June 2018
- Stable weighted average cost of debt of 3.85% p.a.
- 79% of borrowings hedged for average term of 5.3 years at 2.42% p.a.
- Post balance date increase of $50 million in borrowing facility to $280 million
- Average facility term is 3.8 years[3]

Low risk funding profile

During HY19, Arena raised $3.2 million of new equity capital via the DRP which remains open.
Interest rate hedging over new borrowing was increased during the period; 79% of drawn debt was hedged at 31 December 2018 (78% at 30 June 2018) and the weighted average hedge was 5.3 years at an average rate of 2.42% (5.9 years at 2.44% as at 30 June 2018).

Post balance date increase in debt facility limit

Arena increased its total debt facility limit to $280 million though the establishment of an additional $50 million facility post balance date. Arena's weighted average cost of debt was stable at 3.85% p.a. at 31 December 2018.

[1] ACECQA data to 31 December 2018.
[2] Business Geographics, January 2019.
[3] Following $50 million post balance date increase in debt facility.

Capacity to fund new opportunities

At 31 December 2018, Arena's gearing was 25.7%, increased from 24.7% at 30 June 2018 with undrawn debt capacity of $60 million (after the post balance date increase in borrowing facility and healthcare acquisition announced on 18 February 2019) to fund development capex (forecast at $11 million) and new investments.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "We continue to operate well within our covenant requirements and have increased debt capacity to fund additional opportunities for growth."

OUTLOOK

FY19 distribution guidance reaffirmed at 13.5 cents per security[4]

Following announcement of the HY19 result, Arena has today reaffirmed its FY19 DPS guidance at 13.5 cents per security[4]. This reflects growth of 5.5% over FY18, and compound annual growth in DPS since listing in June 2013 of 8.7% per annum[5].

Managing Director Mr Rob de Vos said "We remain focused on securing attractive investment opportunities to leverage our property and development expertise to grow earnings and build long-term value for investors."

– ENDS –

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[4] 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.
[5] DPS Compound Average Growth Rate (CAGR) includes FY19 distribution guidance.

INVESTOR CONFERENCE CALL

Arena will be hosting a conference call at 11am today (19 February 2019) to present the HY19 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.

About Arena REIT

Arena REIT is an ASX300 listed property group that owns, manages and develops social infrastructure property assets across Australia. Our current portfolio of social infrastructure property 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

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