

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

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



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 Properties	31 Dec 18 Valuation (\$m)	Revaluation movement (since 30 June 2018)		Weighted average passing yield	
			\$m	%	31-Dec-18	Change
					%	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 market¹. This represents annualised growth of 140 centres versus 275 actual centres added in calendar year 2018¹ and 291 actual centres added in calendar year 2017¹. Some centres which were expected to be delivered in calendar year 2018 are now expected to be delivered in calendar year 2019².

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 years³

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 through 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 ACECOA 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 security⁴

Following announcement of the HY19 result, Arena has today reaffirmed its FY19 DPS guidance at 13.5 cents per security⁴. This reflects growth of 5.5% over FY18, and compound annual growth in DPS since listing in June 2013 of 8.7% per annum⁵.

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 –

For further information, please contact:

Rob de Vos
Managing Director
+61 3 9093 9000
rob.devos@arena.com.au

Sam Rist
Head of Investor Relations
+61 3 9093 9000
samantha.rist@arena.com.au

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

Important Notice

This document has been prepared by Arena, comprising Arena REIT Limited (ACN 602 365 186) and 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.