

# **ASX ANNOUNCEMENT**

9 JUNE 2022

## MARKET UPDATE

# Portfolio revaluation uplift of approximately \$102 million

Arena REIT's (Arena's) portfolio valuation program is expected to result in a net revaluation uplift of approximately \$102 million for the six month period ending 30 June 2022. This represents an increase of 7.8% from HY22 and is equivalent to an increase of \$0.29 in Net Asset Value per security.

A total of 48 Early Learning Centre (ELC) assets and three healthcare assets were independently valued as at 30 June 2022, with the remaining ELC and healthcare assets and ELC development projects subject to Directors' valuation.

A summary of the approximate \$102 million portfolio revaluation uplift is detailed below:

|                      | Valuation movement<br>(since 31-Dec-21) |      | Weighted average passing yield |          |
|----------------------|---|------|--------------------------------|----------|
|                      |   |      | 30-Jun-22                      | Variance |
| ELC portfolio        | \$93m                                   | 8.2% | 4.90%                          | (23 bps) |
| Healthcare portfolio | \$9m                                    | 5.2% | 5.02%                          | (20 bps) |
| Total portfolio      | \$102m                                  | 7.8% | 4.91%                          | (23 bps) |

Arena's property portfolio remains 100% occupied and has a Weighted Average Lease Expiry of 20 years.

## **ELC** sector update

Strong macroeconomic drivers continue to support the Australian ELC sector. Demand for services and record female workforce participation rate have been driving increased long day care participation rates over the medium to long term<sup>1/2</sup>.

Australia's new Labor Federal Government has committed to further reduce the cost of childcare<sup>3</sup> by lifting the maximum Child Care Subsidy (CCS) rate to 90% for the first child in care, and to keep the recently increased CCS rate at a maximum of 95% for second and additional children for families with a household income up to \$530,000. These measures have been designed to improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term<sup>4</sup>.

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)



<sup>&</sup>lt;sup>1</sup> ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).

<sup>&</sup>lt;sup>2</sup> Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.

<sup>&</sup>lt;sup>3</sup> https://www.alp.org.au/policies/women\_economic\_recovery

 $<sup>{\</sup>color{red}^4\underline{\ }} \underline{\ } \underline{\ }$ 

Arena's ELC tenant partners reported the following underlying business operating data as at 31 March 2022<sup>5</sup>:

- Average daily fee of \$120.27, +5.35% from March 20216;
- Like-for-like operator occupancy is in line with the same period last year, which was higher than any prior corresponding period over the past five years; and
- Net rent to revenue ratio of 10.6%<sup>7</sup>.

#### Investment proposition and approach drives sustainable and commercial outcomes

Across the portfolio, in excess of 80% of Arena's portfolio has, or has terms agreed for the installation of solar renewable energy systems, with over 100 solar installations completed in FY22. These projects have contributed to reduced carbon emissions and provided ongoing operating cost savings to our tenant partners.

# Acquisitions and development project completions

A total of seven ELC property acquisitions and six ELC development projects have been completed during FY22.

Recent extreme weather events in New South Wales and Queensland have caused minor delays in the progress of four ELC development projects which were expected to be completed in 2HFY22. The average expected delay is two months and these projects are now anticipated to be completed in 1HFY23. Due to the fund through nature of these development projects the delays do not impact on Arena's contracted returns or investment cost.

Arena's development pipeline currently comprises 16 projects, with an initial yield on total cost of 5.78% and expected total capital investment of \$103 million; approximately \$50 million of forecast capital expenditure remains outstanding.

## Annual rent escalation profile is well placed for inflation uncertainty

Rent reviews during FY22 resulted in an average annual like-for-like rent increase of 4.1%. Arena's rent review profile is well placed with regard to inflation uncertainty, with annual lease rent reviews predominantly subject to an increase of the higher of an agreed fixed increase or CPI.

<sup>&</sup>lt;sup>5</sup> Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2022.

<sup>&</sup>lt;sup>6</sup> COVID-19 related impacts to ELC operator revenues, government subsidies and attendances may diminish the like-for-like accuracy of these measures during the period.

Assumes CCS fully covers a daily fee of approximately \$135.40 based on CCS capped hourly fee of \$12.31 per hour over an 11 hour day.

## 100% 15.1% 8.0% 80% 9.3% 60% % rental income 40% 79.5% 75.2% 66.3% 20% 0% FY23 FY24 FY25 ■ Higher of 'agreed fixed amount' or CPI ■ CPI linked review Fixed review ■ Market Review

## Profile of Arena's FY23 to FY25 annual rent reviews

#### FY22 results

Portfolio revaluations as at 30 June 2022 remain subject to review by Arena's external auditors. Further details of revaluations, portfolio performance and financial results will be provided in the FY22 results which Arena intends to release to the ASX on Thursday 11 August 2022.

This announcement is authorised to be given to the ASX by Gareth Winter, Company Secretary.

#### - ENDS -

## For further information, please contact:

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#### **About Arena REIT**

Arena REIT is an ASX200 listed property group that develops, owns and manages social infrastructure properties across Australia. Our current portfolio of social infrastructure properties is leased to a diversified tenant base in the growing early learning and healthcare sectors. To find out more, visit <a href="https://www.arena.com.au.">www.arena.com.au.</a>