

ASX ANNOUNCEMENT

19 JUNE 2023

MARKET UPDATE

Portfolio valuation materially unchanged

Arena REIT's (Arena's) portfolio valuation program is expected to result in a net revaluation decrease of approximately \$1 million, which represents -0.1% of total portfolio value, for the six month period ending 30 June 2023. An increase in portfolio capitalisation rate has been offset by passing and market rent increases during the period. There is no material impact on Arena's portfolio valuation or Net Asset Value per security from half year 2023.

A total of 45 early learning centre (ELC) assets and two healthcare assets were independently valued as at 30 June 2023, with the remaining ELC and healthcare assets and ELC development projects subject to Directors' valuation.

A summary of the portfolio valuation change is detailed below:

	Valuation movement (since 31-Dec-2022)		Weighted average passing yield 30-Jun-2023	
				Variance
ELC portfolio	+\$1.5m	+0.1%	5.13%	+10 bps
Healthcare portfolio	-\$2.9m	-1.7%	5.37%	+19bps
Total portfolio	-\$1.4m	-0.1%	5.16%	+11 bps

Arena's property portfolio occupancy is 99.7% and has a Weighted Average Lease Expiry of 19.2 years.

ELC sector update

Strong macroeconomic drivers continue to support the Australian ELC sector. Rising female workforce participation rate continues to drive demand for ELC services and long day care participation rates over the medium to long term¹.

In late November 2022 the Australian Federal Government's Cheaper Childcare Bill successfully passed through the Senate².

From 1 July 2023 Australian families will benefit from the following improved affordability measures:

- Increasing the maximum Childcare Subsidy (CCS) rate to 90% for the first child in care;
- Retaining the increased CCS rate at a maximum of 95% for subsequent children in care; and

¹ ABS Labour Force status by Relationship in household, Sex, State and Territory; Australian Government Department of Education Child Care quarterly reports 2011-2023

² [Bills — Family Assistance Legislation Amendment \(Cheaper Child Care\) Bill 2022; in Committee — They Vote For You](#)



- Increasing the CCS for every family earning less than \$530,000 in annual household income, with one child in care.

These measures have been designed to improve lifelong learning prospects of Australian children, increase workforce participation, improve gender equality, including women's financial security and to stimulate broader economic activity over the medium to long term³.

The ACCC is expected to issue an interim report on its inquiry into the market for the supply of childcare services no later than 30 June 2023⁴, and the Productivity Commission is expected to release a draft report of its inquiry into the early childhood education and care sector in late November 2023⁵.

Arena's ELC tenant partners reported the following underlying business operating data as at 31 March 2023⁶:

- Average daily fee of \$129.46, +7.0% from March 2022;
- Like-for-like operator occupancy is above the same period last year and higher than any prior corresponding period over the past ten years; and
- Net rent to revenue ratio of 10.7%⁷.

Investment proposition and approach drives sustainable and commercial outcomes

Sustainability is integrated across Arena's strategies to best position us to achieve positive long term commercial and community outcomes.

Arena's properties facilitate access to essential community services:

- ELCs provide early childhood education and care which improve lifelong learning prospects of children and allow parents and carers the opportunity to remain in, join or re-join the workforce.
- Medical centres provide local, community-based primary health care services.
- Specialist disability accommodation is designed to provide a better quality of life for residents with high physical support needs.

Key future goals as outlined in Arena's Financial Year (FY) 2022 Sustainability Report include:

- Continue active collaboration with tenant partners on appropriate sustainability initiatives.
- Install solar renewable energy systems on 90% of Arena's property portfolio by FY2027.
- Maintain organisational carbon neutrality Climate Active certification.
- Develop a detailed transition plan including an emissions reduction roadmap for our operations and asset portfolio by FY2025.
- Align reporting with recommendations of TCFD by FY2025.
- Achieve gender balance for Arena board using the 40:40:20 model by FY2024.
- Develop a Reconciliation Action Plan that is endorsed by Reconciliation Australia.
- Continue to build on our Modern Slavery response in line with our roadmap.

³ [Cheaper childcare: A practical plan to boost female workforce participation \(grattan.edu.au\)](https://grattan.edu.au/cheaper-childcare-a-practical-plan-to-boost-female-workforce-participation/)

⁴ [Childcare inquiry 2023 | ACCC](https://www.accc.gov.au/childcare-inquiry-2023/)

⁵ [Early Childhood Education and Care - Public inquiry - Productivity Commission \(pc.gov.au\)](https://www.pc.gov.au/early-childhood-education-and-care-public-inquiry/)

⁶ Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2023

⁷ Assumes CCS fully covers a daily fee of approximately \$140.14 based on CCS capped hourly fee of \$12.74 per hour over an 11 hour day

Acquisitions and development project completions

A total of two operating ELC property acquisitions and ten ELC development projects have been completed during FY2023 to date. Nine⁸ new ELC development projects have been acquired during the same period.

Asset recycling underpins ongoing quality of portfolio

The divestment of two healthcare properties at Caboolture, QLD and Bondi, NSW were settled during the period at an average premium of 2.4% to 30 June 2022 book value. Proceeds of approximately \$33 million will be reinvested into Arena's development projects.

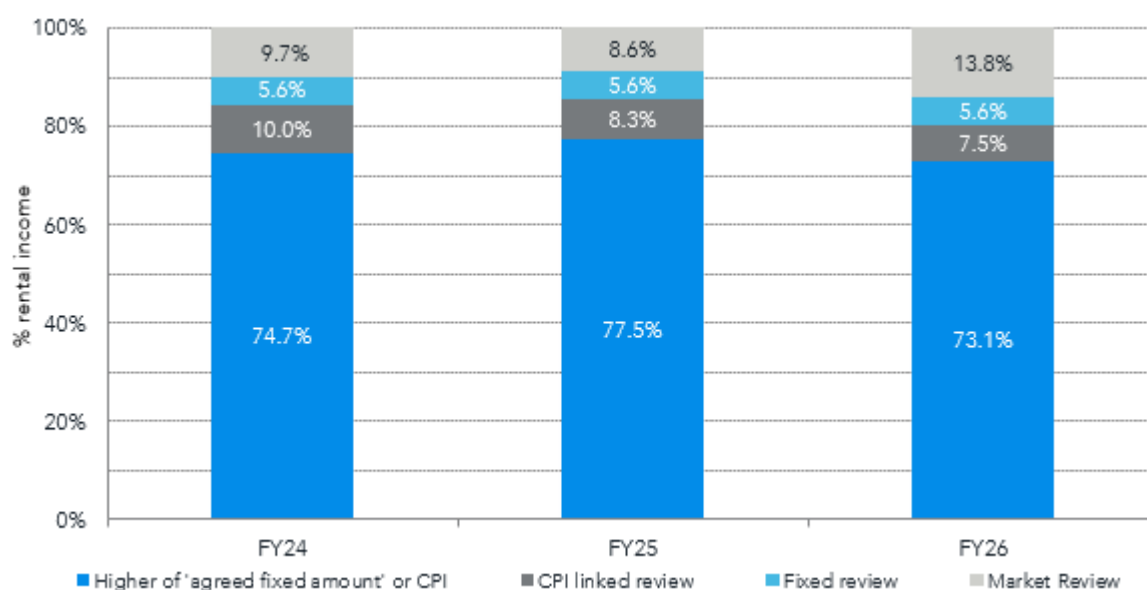
Development pipeline of \$105 million

The development pipeline comprises 15 ELC projects with a forecast total cost of \$105 million; \$62 million of forecast capital expenditure remains outstanding. The weighted average initial yield on forecast total cost on completion of the development pipeline is 5.4%.

Annual rent escalation profile is well placed for inflation uncertainty

Rent reviews during FY2023 resulted in an average annual like-for-like rent increase of 6.8%. Arena's rent review profile is well placed with regard to inflation uncertainty, with over 94% of annual rent reviews subject to an increase of the higher of an agreed fixed increase or CPI, CPI or market review over the next five years.

Profile of Arena's FY24 to FY26 annual rent reviews



⁸ Includes one ELC development project which was conditionally contracted at 19 June 2023.

FY2023 distribution of 16.8 cents per security

Arena has declared a final quarter distribution of 4.2 cents per security. The total FY2023 distribution is 16.8 cents per security which is in accordance with previous guidance and reflects growth of 5% over FY2022.

Mr de Vos said "Arena's investment proposition and partnership approach are integral to building better communities, together. We have maintained discipline across our capital, leasing and portfolio management strategies throughout the cycle. We retain capacity to deploy capital into growth opportunities aligned with Arena's value proposition, which provides inflation protected, long term income predictability with earnings growth prospects over the medium to long term."

FY2023 Results

Portfolio revaluations as at 30 June 2023 remain subject to review by Arena's external auditors. Further details of revaluations, portfolio performance and financial results will be provided in Arena's FY2023 results which Arena intends to release to the ASX on Thursday 10 August 2023.

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

– ENDS –

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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 www.arena.com.au.