ARENA REIT (ASX CODE: ARF)

ASX ANNOUNCEMENT

3 DECEMBER 2020

OPERATING UPDATE AND UPGRADE TO DISTRIBUTION GUIDANCE

Arena REIT (Arena) has today announced:

- the expected completion of eight existing Early Learning Centre (ELC) development projects in 1HFY21 for a total cost of $41 million at an average initial yield on all costs of 6.7% with a weighted average initial lease term of 20 years;
- the acquisition of seven established ELCs for a total cost of $40.3 million at a net initial yield on all costs of 6.1%, all leased to existing Arena tenant partners with a weighted average initial lease term of 27.3 years;
- the disposal of three ELCs for $7.2m, representing a 16.1% premium to prevailing book value;
- an expected net revaluation uplift of $37.3 million in portfolio value as at 31 December 2020 (unaudited), reflecting growth of 4% since 30 June 2020 and equivalent to an increase of approximately $0.11 in Arena's Net Asset Value per security;
- an increase in the portfolio weighted average lease expiry (WALE) to 14.7 years (from 14.0 years at 30 June 2020);
- 100% of rent due to the end of November 2020 has been collected; and
- an upgrade in FY21 distribution guidance to 14.8[1] cents per security (an increase of 5.7% on FY20).

Capital deployment

In the six months to 31 December 2020 a total of eight existing ELC development projects are expected to reach practical completion, for a total cost of $41 million, at an average initial yield on all costs of 6.7% and with a weighted average initial lease term of 20 years.

Arena's Head of Property, Mr Stuart Andrews said "Despite the external challenges of the past six months it has been another active period for Arena and we remain on track to complete 14 high quality ELC development projects with our tenant partners in FY21."

Arena has acquired seven established ELCs operated by existing tenant partners each with new triple net leases with a weighted average initial lease term of 27.3 years. The total portfolio cost is $40.3 million representing an average yield on all costs of 6.1%.

[1] FY21 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals, all developments in progress are completed in line with forecast assumptions, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.

Arena has also disposed of three ELCs in regional Queensland for $7.1m, a 16.1% premium to book value.

The acquisitions and development completions, net of the disposed properties, account for a net capital deployment anticipated to be approximately $75 million at an average yield on all costs of 6.4%.

Portfolio revaluation

A total of 38 ELCs and three healthcare properties have been independently valued as at 31 December 2020, with Directors' valuations undertaken for the balance of the portfolio. The revaluations remain subject to review by Arena's auditors.

The expected uplift in portfolio value as at 31 December 2020 reflects both an increase in net passing rents and a firming in passing yields.

A summary is detailed below:

	No. of Properties	Valuation	Revaluation movement (as at 31 Dec 2020)		Weighted average passing yield	
					31-Dec-2020	Change
		$m	$m	%	%	bps
ELC portfolio	233	862.3	33.2	4.2	6.19	-5
Healthcare portfolio	11	140.5	4.1	3.0	5.98	-14
Total Portfolio	**244**	**1,002.8**	**37.3**	**4.0**	**6.16**	**-6**

Arena's portfolio occupancy was maintained at 100% and the portfolio's WALE is anticipated to be 14.7 years.

Commenting on the valuations, Arena's Managing Director Mr Rob de Vos said "We continue to see strong investor interest in social infrastructure property and this has contributed to a further firming in valuation yields. Our portfolio valuation yield of 6.16% continues to look relatively attractive in context of the quality of our assets and long term triple net leases."

ELC operating conditions

There has been a strong rebound in ELC attendances post the easing of COVID-19 related restrictions; the occupancies of Arena's ELC tenant partners are trending around the same level as this time last year.

Rent collection

100% of rent due to 30 November has been collected, and where applicable tenant partners are in compliance with their COVID-19 rent relief agreements. No material new rent relief has been provided in 1HFY21.

Upgrade to FY21 distribution guidance[2]

Arena is upgrading FY21 distribution guidance to 14.8[2] cents per security (representing growth of 5.7% over FY20) and an increase over the previous FY21 guidance of 14.4 to 14.6 cents per security.

Mr de Vos said "Arena remains well positioned to continue to provide benefits to our tenant partners and the communities that use our assets - and to deliver an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term."

FY21 interim results

Further details of revaluations, portfolio performance and financial results will be provided in the FY21 interim results which are scheduled to be released to the ASX in mid-February 2021.

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 ASX300 listed property group that owns, manages and develops 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.

[2] FY21 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals, all developments in progress are completed in line with forecast assumptions, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.