ARENA REIT (ASX CODE: ARF)

ASX ANNOUNCEMENT

15 DECEMBER 2022

MARKET UPDATE

Portfolio revaluation uplift of approximately $19 million

Arena REIT's (Arena's) portfolio valuation program is expected to result in a net revaluation uplift of approximately $19 million for the six month period ending 31 December 2022 (HY23). This represents an increase of 1.3% from 30 June 2022 and an increase equivalent to $0.055 in Net Asset Value (NAV) per security.

A total of 51 Early Learning Centre (ELC) assets and one healthcare asset were independently valued as at 31 December 2022, with the remaining ELC and healthcare assets and ELC development projects subject to Directors' valuation. These portfolio revaluations remain subject to review by Arena's external auditors.

A summary of the approximate $19 million portfolio revaluation uplift is detailed below:

	Valuation movement (since 30-Jun-22)		Weighted average passing yield 31-Dec-22	Variance
ELC portfolio	$21m	1.6%	5.03%	+13 bps
Healthcare portfolio	$(2)m	(0.9)%	5.16%	+14 bps
Total portfolio	**$19m**	**1.3%**	**5.04%**	**+13 bps**

The valuation effect of the expansion in passing yields is offset by increases in market rents resulting in an overall positive revaluation outcome.

ELC sector and portfolio update

Strong macroeconomic drivers continue to support the Australian Early Learning Centre (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[1,2].

In late November 2022 the Australian Federal Government's Cheaper Childcare Bill successfully passed through the Senate[3].

[1] ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).
[2] Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.
[3] *Bills — Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022; in Committee — They Vote For You*

Australian families will benefit from the following improved affordability measures from 1 July 2023[4]:

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

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 term[5].

Arena's ELC tenant partners reported the following underlying business operating data as at 30 September 2022[6]:

- Average daily fee of $127.31, +5.22% from March 2022[6];
- Like-for-like operator occupancy remains robust and higher than any prior corresponding period over the past six years[6]; and
- Net rent to revenue ratio of 10.7%[7].

ELC acquisitions and development project completions during HY23

Two operating ELC properties were acquired at an average net initial yield of 6% on total cost, with an initial weighted average lease expiry of 25 years. Seven ELC developments were completed at an average net initial yield on total cost of 5.9%, with an initial weighted average lease expiry of 20 years.

$106 million ELC development pipeline

Seven projects were added to the development pipeline during HY23. As at December 2022 the development pipeline is anticipated to comprise 15[8] ELC projects with a forecast total cost of $106 million, with approximately $67 million of capital expenditure outstanding. The forecast weighted average initial yield on total forecast cost for the development pipeline is 5.4%.

Arena's healthcare portfolio continues to perform well

Strong structural macro-economic drivers continue to support Australian healthcare accommodation, including a growing and ageing population and increased prevalence of chronic health conditions. Strong occupancy has been maintained across the specialist disability accommodation portfolio.

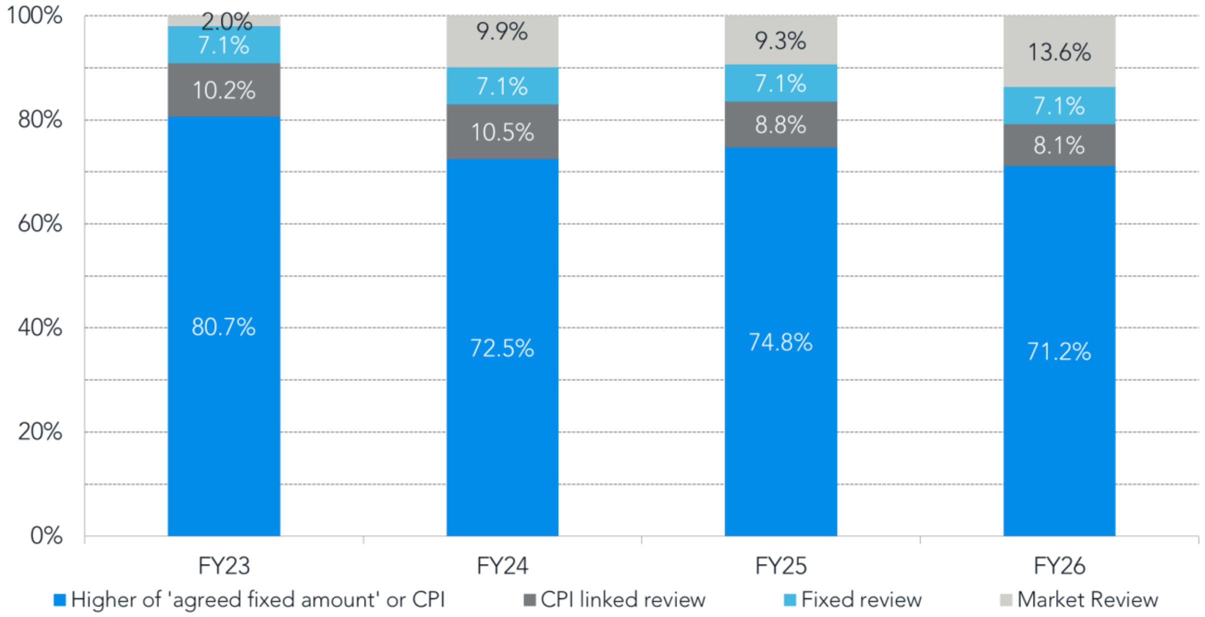
HY23 rent reviews

Rent reviews during HY23 resulted in an average like-for-like rent increase of 6.45%.

[4] *https://anthonyalbanese.com.au/media-centre/labors-plan-for-cheaper-child-care-budget-reply-2022*
[5] *Cheaper childcare: A practical plan to boost female workforce participation (grattan.edu.au)*
[6] Arena analysis based on operating data provided by Arena's tenant partners.
[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.
[8] Two development projects are conditionally contracted as at 31 December 2022.

Annual rent escalation profile remains well placed for inflation uncertainty

Arena's rent review profile remains 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.



Increase in borrowing facility and extension of facility tranche

Arena has agreed terms to increase its syndicated borrowing facility by $70 million to $500 million and extended a $150 million facility tranche from 31 March 2024 to 31 March 2028 during HY23. As at 31 December 2022 the weighted average remaining facility term will be 4.2 years with no debt expiry before 31 March 2026.

Arena's weighted average cost of debt was 3.5% during HY23 compared with 2.9% as at 30 June 2022 and 80% of borrowings are hedged for a weighted average term of 4.1 years at a weighted average rate of 1.93% as at 31 December 2022.

As at 31 December 2022, undrawn debt capacity of $148 million will be available to fund the development program and future growth opportunities.

Sustainable Finance

Arena REIT has agreed terms for an inaugural Sustainability-Linked Loan (SLL) over its existing debt facility, totalling $500m; Arena's Sustainable Finance Framework and SLL are aligned to the Sustainability-Linked Loan Principles.

Under the SLL, Arena is incentivised to accelerate our existing sustainability journey, with key performance indicators and associated sustainability performance targets based on the following material sustainability areas:

- Maintaining organisational carbon neutrality, delivering a detailed emissions reduction plan for operations and assets under management and reducing scope 1 and 2 greenhouse gas emissions from operations and assets under management;
- Further increasing the rate of the rollout of solar renewable energy systems on Arena's property portfolio; and
- Issuing our inaugural and ongoing annual Voluntary Modern Slavery Statement and refining Arena's Modern Slavery response in line with our roadmap.

Full year 2023 distribution guidance of 16.8 cents per security[9]

Arena reaffirms full year 2023 distribution guidance of 16.8[9] cents per security reflecting growth of 5% over financial year 2022.

HY23 results

Further details of revaluations, portfolio performance and financial results will be provided in HY23 results which Arena intends to release to the ASX on Thursday 9 February 2023; teleconference details will be provided in due course.

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 www.arena.com.au.

[9] FY23 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, no material change in current market conditions 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.