



ASX ANNOUNCEMENT

14 DECEMBER 2023

MARKET UPDATE

Arena REIT's (Arena's) portfolio valuation program is expected to result in a net revaluation decrease of approximately \$4 million for the six month period ending 31 December 2023 (HY2024). This represents a decrease of 0.2% from 30 June 2023 and a decrease equivalent to \$0.01 in Net Asset Value (NAV) per security.

A total of 59 Early Learning Centre (ELC) assets and three healthcare assets were independently valued as at 31 December 2023, 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 \$4 million portfolio revaluation decrease is detailed below:

	Valuation movement (since 30-Jun-23)		Weighted average passing yield 31-Dec-23	
				Variance
ELC portfolio	\$(3)m	-0.2%	5.24%	+11 bps
Healthcare portfolio	\$(1)m	-0.3%	5.50%	+12 bps
Total portfolio	\$(4)m	-0.2%	5.26%	+11 bps

The valuation effect of an expansion in capitalisation rates has been offset by increases in passing and market rents resulting in an overall flat revaluation outcome.

ELC sector and portfolio update

Strong macroeconomic drivers continue to support the Australian childcare sector. Rising female workforce participation continues to drive demand for childcare services and long day care participation rates over the medium to long term^{1,2}. From July 2023 Australian families have benefitted from improved affordability measures³ introduced by the Federal Government, including:

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

¹ ABS Labour Force status by Relationship in household, Sex, State and Territory.

² Australian Government Department of Education Early Childhood data and reports - quarterly reports 2011-2023.

³ Labor's Plan for Cheaper Child Care / Policies / Australian Labor Party (alp.org.au)



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 stimulate economic activity over the medium to long term⁴.

The ACCC issued a first interim report on its inquiry into the market for the supply of childcare services in July 2023, a second interim report in October 2023 and the final report is due by 31 December 2023⁵.

The Productivity Commission released a draft report 'A path to universal early childhood education and care' in late November 2023 which focuses on improvements to Early Childhood Education and Care (ECEC) availability, affordability, inclusivity, flexibility and regulation that will help to deliver 30 hours of quality ECEC a week for all children aged 0-5. The final report to government is due by 30 June 2024 and will be released publicly after this date⁶.

These reports are consistent with the Australian Federal Government's promise to improve the Australian childcare system through fundamental economic reform. The development and implementation of a whole of government Early Years Strategy³ will create a new and integrated approach to the early years and outline a program of action to deliver cheaper childcare, boost workforce participation and drive productivity growth⁷.

Arena's ELC tenant partners reported the following underlying business operating data as at 30 September 2023⁸:

- Average daily fee of \$140.63, +8.53% from March 2023;
- Like-for-like operator occupancy remains robust and higher than any prior corresponding period over the past seven years; and
- Net rent to revenue ratio of 10.6%.

ELC development projects completed during HY2024

Three ELC development projects were completed at an average net initial yield on total cost of 5.4%, with an initial weighted average lease expiry of 20 years.

\$125 million ELC development pipeline

Eight ELC development projects⁹ were added to the development pipeline during HY2024 at a forecast average net initial yield on total cost of 6.3%. As at December 2023 the development pipeline is anticipated to comprise 19⁹ ELC projects with a forecast total cost of \$125 million, with approximately \$78 million of capital expenditure outstanding. The forecast weighted average initial yield on total forecast cost for the development pipeline is 5.7%.

⁴ [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/)

⁵ [Childcare inquiry 2023 | ACCC](https://www.accc.gov.au/publications/childcare-inquiry-2023/)

⁶ [Draft Report - Early childhood education and care - Productivity Commission \(pc.gov.au\)](https://www.pc.gov.au/publications/draft-report-early-childhood-education-and-care/)

⁷ [Labor's Plan for Cheaper Child Care \(anthonyalbanese.com.au\)](https://www.anthonyalbanese.com.au/labor-plan-for-cheaper-child-care/)

⁸ Arena analysis based on operating data provided by Arena's tenant partners.

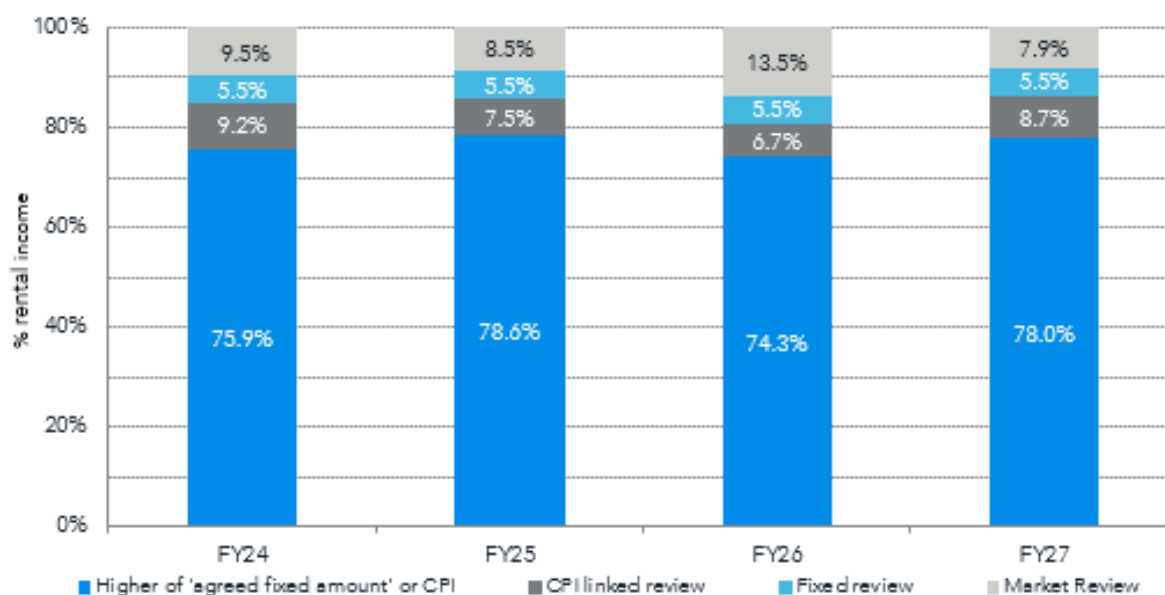
⁹ Four development projects are conditionally contracted as at 31 December 2023.

HY2024 rent reviews

Rent reviews during HY2024 resulted in an average like-for-like rent increase of 5.4%.

Annual rent escalation profile well placed for inflation uncertainty

Arena's rent review profile remains well placed with annual lease rent reviews predominantly subject to an increase of the higher of an agreed fixed increase or CPI.



Sustainable Finance

In late 2022 Arena REIT agreed terms for an inaugural Sustainability-Linked Loan (SLL) over its existing debt facility totalling \$500 million. Arena's Sustainable Finance Framework and SLL are aligned to the Sustainability-Linked Loan Principles.

Arena achieved the SLL margin discount for the FY2023 performance targets.

Full year 2024 distribution guidance of 17.4 cents per security¹⁰

Arena reaffirms full year 2024 distribution guidance of 17.4¹⁰ cents per security reflecting growth of 3.6% over financial year 2023.

HY2024 results

Further details of revaluations, portfolio performance and financial results will be provided in HY2024 results which Arena intends to release to the ASX on Thursday 15 February 2024; teleconference details will be provided in due course.

¹⁰ FY2024 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals and no material change in current market or operating conditions.

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.