



ARF.ASX

Arena REIT

FY15 Interim Results Presentation and \$25 million Institutional Placement

25 February 2015

NOT FOR DISTRIBUTION IN THE UNITED STATES



Important notice and disclaimer

This investor presentation ("**Presentation**") has been prepared by Arena REIT ("**ARF**") comprising 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).

This Presentation is not a prospectus, product disclosure statement or other offering document under Australian law, including the *Corporations Act 2001* (Cwlth) ("**Corporations Act**") or any other law. The Presentation has not been, nor will it be, lodged with the Australian Securities and Investments Commission.

By accepting, assessing or reviewing this Presentation, or attending any associated presentation or briefing, you agree to be bound by the following conditions.

Summary information

This Presentation contains summary information about the current activities of ARF and the entities within the ARF stapled group as at the date of this Presentation. The information in this Presentation is of a general nature and is not intended to be used as the basis for making an investment decision. This Presentation does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in ARF or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act.

The historical information in this Presentation is, or is based upon, information that has been released to the Australian Securities Exchange ("**ASX**"). This Presentation should be read in conjunction with ARF's other periodic and continuous disclosure announcements lodged with the ASX, which are available at www.asx.com.au.

No member of ARF or any of its related bodies corporate and their respective directors, employees, officers and advisers offer any warranties in relation to the statements and information in this Presentation.

Statements made in this Presentation are made only as of the date of this Presentation. The information in this Presentation remains subject to change without notice.

The distribution of this Presentation outside Australia and New Zealand may be restricted by law. Persons who come into possession of information in this Presentation who are not in Australia or New Zealand should seek independent advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Not an offer

This Presentation is for information purposes only and should not be considered as a solicitation, offer or invitation for subscription, purchase or sale of securities in any jurisdiction, or to any person to whom it would not be lawful to make such an offer or invitation. No action has been taken to register the securities referred to in this presentation ("**Securities**"), or otherwise permit a public offering of the Securities.

In particular, this Presentation has been prepared for publication in Australia and may not be released in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any other jurisdiction. Any securities described in this Presentation have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

This document may not be distributed to any person, and the Securities may not be offered or sold, in any other country outside Australia except to the extent permitted under the section captioned "Foreign Jurisdictions".

Not financial advice

Nothing in this Presentation constitutes financial product, investment, legal, tax or other advice. This Presentation has been prepared without taking account of any person's individual investment objectives, financial situation or particular needs. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own investment objectives, financial situation and needs and seek legal, accounting and taxation advice appropriate to their jurisdiction. Cooling off rights do not apply to the acquisition of ARF Securities.

Risk

An investment in ARF is subject to investment and other known and unknown risks, some of which are beyond the control of ARF. ARF does not guarantee any particular rate of return or the performance of ARF or its securities, nor does it guarantee the repayment of capital from ARF or any particular tax treatment. Some of these risks are set out in the section captioned "Investment Risks".

Financial data

All references to dollars and cents are in reference to Australian dollars unless otherwise stated and all financial data is presented as at the date of this Presentation unless otherwise stated.



Important notice and disclaimer

Future performance

This Presentation contains certain “forward looking statements”. Forward looking statements can generally be identified by the use of forward looking words such as “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target”, “outlook”, “guidance”, “project”, “opinion” and other similar expressions within the meaning of securities laws of applicable jurisdictions and include, but are not limited to, the outcome and effects of the capital raising and the use of proceeds. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements, and include statements in this Presentation regarding the conduct and outcome of this capital raising, the use of proceeds, and ARF’s outstanding debt. The forward looking statements contained in this Presentation are not guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of ARF, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct.

You are cautioned not to place undue reliance on forward looking statements, opinions and estimates provided in this Presentation as there can be no assurance that actual outcomes will not differ materially from these express and implied forward-looking statements.

Forward looking statements, opinions and estimates provided in this Presentation necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise.

Similarly, statements about market and industry trends, which are based on interpretations of current market conditions, should be treated with caution. Such statements may cause the actual results or performance of ARF to be materially different from any future results or performance expressed or implied by such forward looking statements. Forward looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Such forward looking statements are based on information available to ARF as at the date of this Presentation.

Except as required by law or regulation (including the ASX Listing Rules), ARF undertakes no obligation to provide any additional, updated or supplementary information whether as a result of new information, future events or results, or otherwise.

Past performance

Investors should note that past performance, including past security price performance, of ARF cannot be relied upon as an indicator of (and provides no guidance as to) future ARF performance including future security price performance and is given for illustrative purposes only.

Stapled securities

Investors should note that ASX reserves the right (without limiting its absolute discretion) to remove Arena REIT Limited, Arena REIT No.1 and/or Arena REIT No.2 from the official list of ASX if any of the securities comprising the Securities cease to be stapled together, or any equity securities are issued by Arena REIT Limited, Arena REIT No.1 and/or Arena REIT No.2 which are not stapled to corresponding securities in the other entity.

Disclaimer

No person other than ARF has authorised, permitted or caused the issue, submission, dispatch or provision of this Presentation. To the maximum extent permitted by law, ARF on its own behalf and on behalf of its advisers, affiliates, related bodies corporate, directors, officers, partners, employees and agents:

- (i) excludes and disclaims all liability, for any expenses, losses, damages or costs incurred by you as a result of your participation in the offering of securities referred to in this Presentation (“Offer”) and the information in this Presentation being inaccurate or incomplete in any way for any reason, whether by negligence or otherwise; and
- (ii) makes no representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of information in this Presentation.

ARF and its advisers, affiliates, related bodies corporate, directors, officers, partners, employees and agents do not make any recommendations as to whether you or your related parties should participate in the Offer nor do they make any representations or warranties to you concerning the Offer, and by receiving this Presentation you represent, warrant and agree that you have not relied on any statements made by any person in relation to the Offer.



Presenters



Bryce Mitchelson

Managing Director

- Joined Arena in 2009.
- Previously held positions with Centro Properties Group and Heine Management Limited.



Gareth Winter

Chief Financial Officer

- Joined Arena in 2012.
- Executive Director of Arena REIT Management Limited.
- Previously a partner of PricewaterhouseCoopers and is a member of the Institute of Chartered Accountants.



Rob de Vos

Head of Property

- Joined Arena in 2012.
- Previously held senior roles with Jones Lang LaSalle, Becton Property Group and Ceramic Funds Management.

Agenda

1	First Half FY15 overview	6
2	Financial results	8
3	Institutional placement	13
4	Portfolio update	16
5	Outlook	23
6	Questions	26
7	Appendix A: Additional information	27
8	Appendix B: Foreign jurisdictions	36
9	Appendix C: Investment risks	38



1

First Half FY15 Overview

Bryce Mitchelson

1HFY15 Key achievements

Active period delivering solid results

Internalisation completed

Transition to preferred management and governance structure; greater alignment of interests and enhanced growth prospects.

Earnings growth remains strong

1HFY15 distributable income of 4.97¢ per security vs 4.13¢ for corresponding period, up 20.3%.

Development pipeline progressed

Four projects for a cost of \$9.5 million providing a yield on cost of 9.1%. Fifth project completed post balance date. Three new sites acquired.

Continued strong growth in property revaluations

Net revaluation of \$13.7 million, increasing net asset value by \$0.05 to \$1.18 per security.

Post balance date: Arena has agreed to extend leases on an additional 20 properties for 5 years and concluded 45 market rent reviews with an average increase of 6% (not included in the half year financial results).

Solid 1HFY15 operating result and on track to deliver FY15 distribution guidance of 10.0¢¹ per security (14.3% increase over FY14).

¹ Subject to no unforeseen events. On a status quo basis assuming no new acquisitions and developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations.



2

Financial results

Gareth Winter

2.1 Financial highlights

Acquisitions and rent reviews underpinned earnings growth

Key metrics	31 December 2014	31 December 2013	Change (%)
Statutory net profit	\$21.5m	\$12.6m	↑ 70.6%
Distributable income	\$10.5m	\$8.5m	↑ 23.5%
Distributable income per security	4.97¢	4.13¢	↑ 20.3%
Distribution per security	4.90¢	3.75¢ ¹	↑ 30.7%
Distribution pay-out ratio	98.6%	90.8%	↑ 7.8%
Key metrics	31 December 2014	30 June 2014	Change (%)
Total assets	\$403.6m	\$375.3m	↑ 7.5%
Balance sheet gearing ²	34.2%	33.3%	↑ 0.9%
Net asset value	\$249.5m	\$238.2m	↑ 4.7%
ASX market capitalisation	\$374.1m ³	\$253.8m	↑ 47.4%
NAV per security	\$1.18	\$1.13	↑ 4.4%
Securities on issue	211.6 m	211.5m	↑ 0.0%

¹ Reflects period from 1 July 2013 to 10 December 2013.

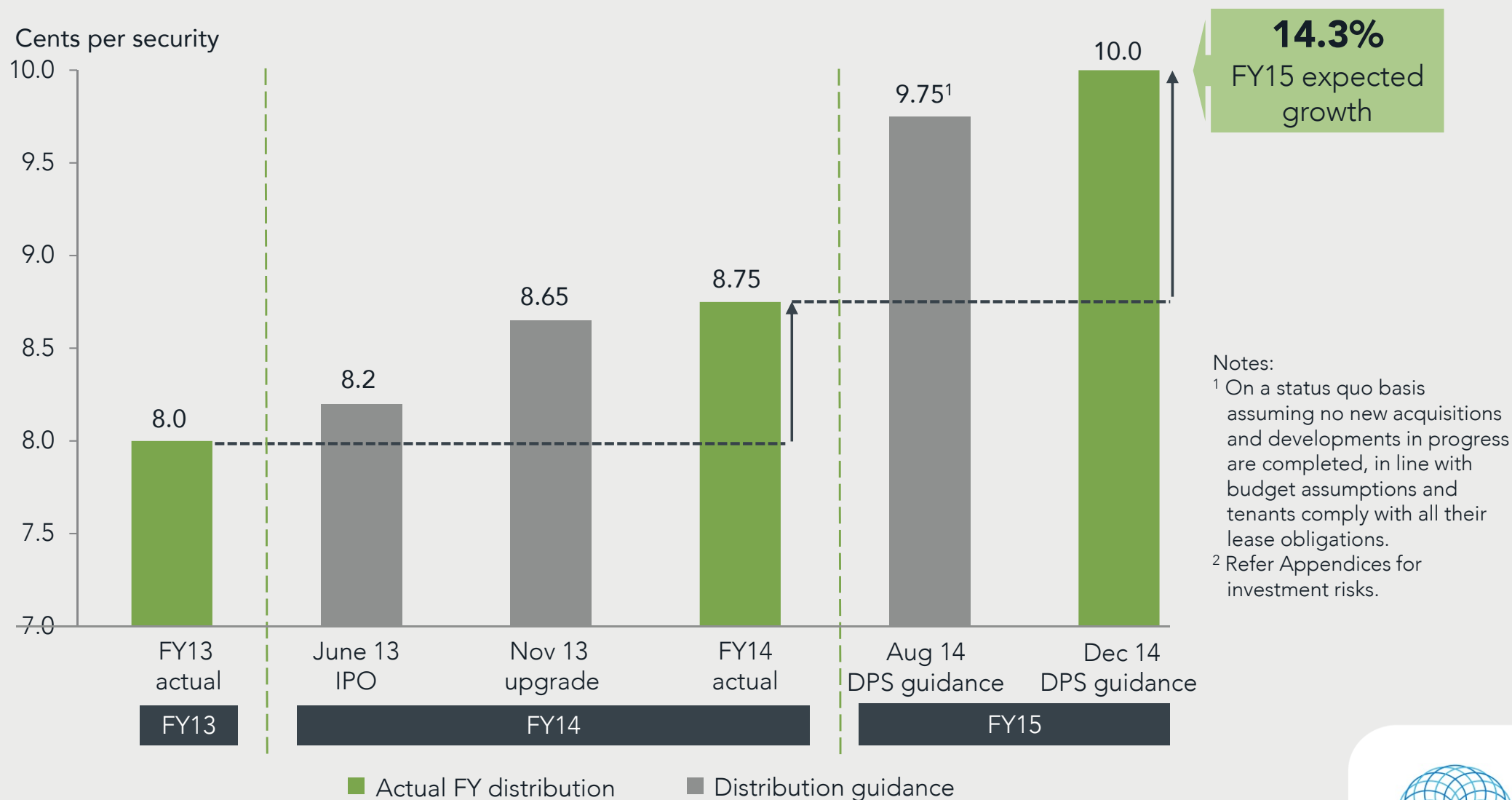
² Borrowings net of loan establishment costs of \$0.2 million (30 June 2014: \$0.2 million). Gearing calculated as borrowings/total assets.

³ Based on closing price at 24 February 2015.

- Distributable income growth due to higher property income from acquisitions and rent reviews. Savings in management costs to follow in 2HFY15 with internalisation completed mid December 2014.
- Statutory profit increased 70.6% on comparative period underpinned by income growth from acquisitions and developments and property valuation growth.

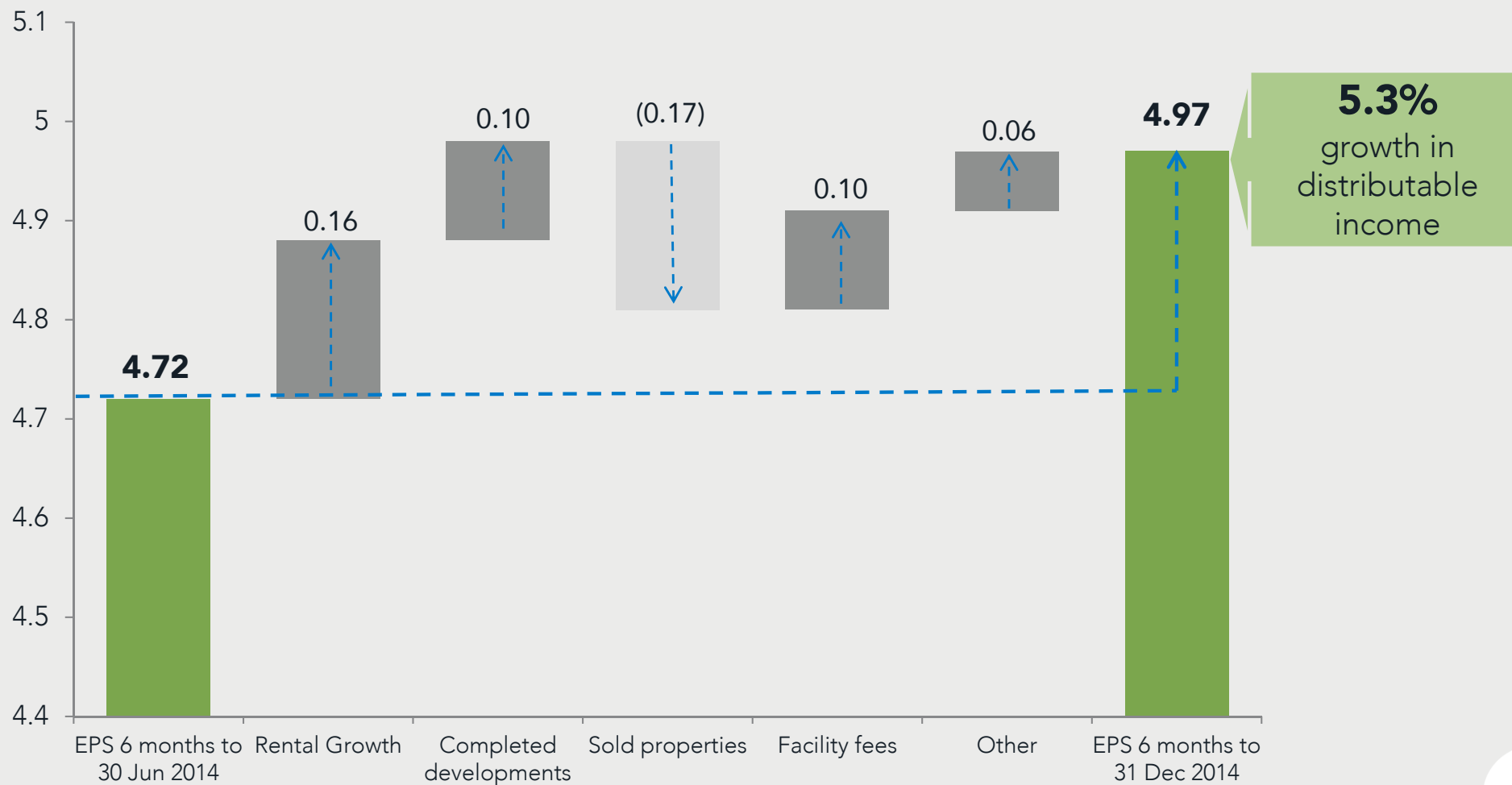
Delivering distribution growth

FY14 DPS exceeded expectations with growth continuing into FY15



Earning growth drivers

5.3% increase in distributable income per security



2.4 Debt management

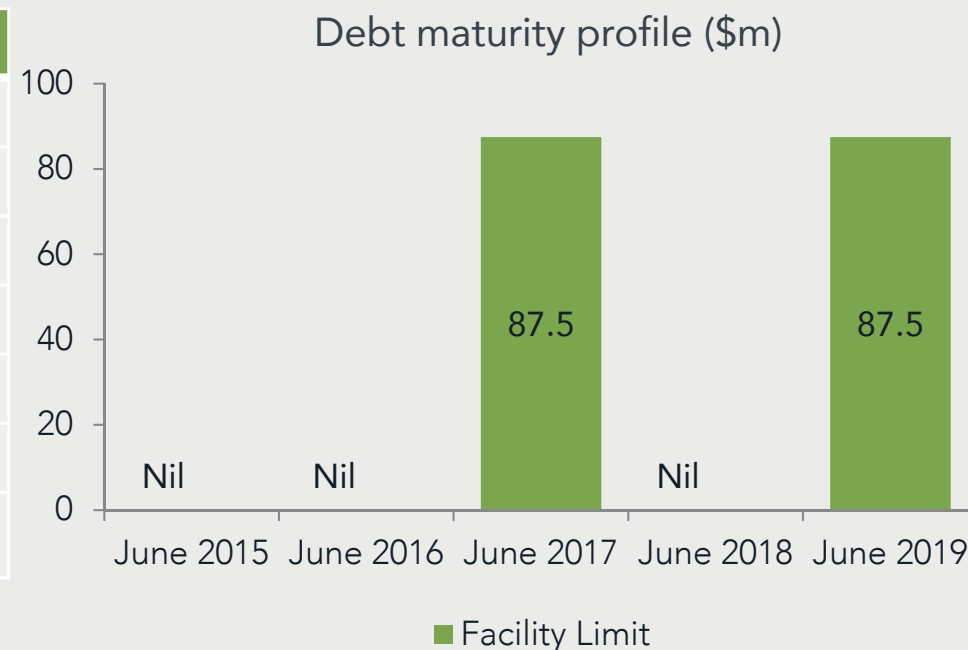
Strong credit profile

Key debt metrics	Dec 2014	June 2014
Facility limit	\$175m ¹	\$155m ²
Drawn amount	\$138m	\$125m
Average remaining facility term	3.5 years	4.0 years
Interest rate hedging cover	62%	68%
Weighted average hedge expiry	3.5 years	3.1 years
Gearing	34.2%	33.3%
Weighted ave cost of debt	4.60%	4.80%

¹ Effective from 16 January 2015.

² Effective from 1 July 2014.

- Increased facility limit to accommodate growth pipeline.
- Modest increase in gearing; still below the maximum gearing range of 35-45%.
- Hedge maturity profile extended to take advantage of decline in long term rates. Fixed rate cover increased to 71% in January 2015.





3

Institutional placement

Gareth Winter

Institutional placement overview

Building growth capacity

- A fully underwritten (Morgan Stanley) placement of \$25 million.
- New securities issued at \$1.60 per security.
 - Discount of 2.7% to 30 day VWAP to market close on 24 February 2015.
- New securities will rank equally with current securities with full entitlement to 3Q FY15 distributions.
- Replenishes ARF's balance sheet and provides financial flexibility for ARF to fund its existing development pipeline and pursue additional accretive acquisition and development opportunities.
- Pro forma 31 December 2014:
 - NAV increases to \$1.21 per security + \$0.03; and
 - Gearing reduced to 28.1%.

Sell-down of existing ARF securities

- In conjunction with the institutional placement, funds advised by Morgan Stanley Real Estate Investing will also seek to sell-down their 12.7% stake in ARF.

Transaction overview

Pro-forma balance sheet and indicative timetable

Abridged pro-forma balance sheet	31 December 2014 (\$m)	Placement	Pro-forma
Total assets	403.6	-	403.6
Borrowing	137.8	(24.5)	113.3
Other liabilities	16.4	-	16.4
Net assets	249.5	24.5	274.0
NAV per security (\$)	1.18		1.21
Gearing	34.2%		28.1%
Securities on issue (million)	211.6	15.6	227.2

Indicative timetable	
Key event	Date
Institutional placement offer and bookbuild opens	Wednesday, 25 February 2015
Institutional placement offer and bookbuild closes	Wednesday, 25 February 2015
Normal trading recommences	Thursday, 26 February 2015
Settlement of new securities issued under institutional placement	Tuesday, 10 March 2015



4

Portfolio update

Rob de Vos

4.1 Portfolio strategy

Strategy in place to drive portfolio growth

Priorities	Strategy	1HFY15 progress
Landlord of choice	Understand the markets our tenants operate in, look for opportunities to provide efficient capital for suitable accommodation.	15 options exercised in the period with a further 20 exercised post balance date, extending WALE to 8.9 years.
Actively manage reversionary risk	Recycle assets with diminishing utility into well located, typically larger purpose built properties on longer leases. Upgrade properties to increase tenant utility.	4 new developments completed (1 additional post balance date) funded from proceeds of sale of properties with less attractive operating metrics.
Further diversify the portfolio	Seek to reduce the risk of investment underperformance by geographic, tenant and sector diversification.	3 new childcare development sites acquired and a further 8 projects in progress.
Provide strong risk adjusted returns	Actively manage the assets of the portfolio.	Net revaluation of \$13.7 million (+3.8%) and rent review growth of 2.9%.

4.2 Portfolio metrics

Strengthening portfolio fundamentals

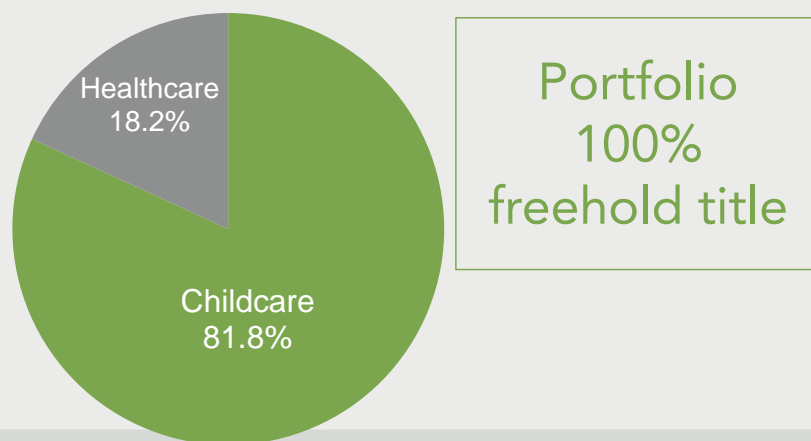
As at December 2014	Medical centres	Childcare centres	Development sites	Total 31 Dec 2014	Total 30 June 2014
No of properties	7	179	10 ¹	↑ 196	193
Value (\$m)	65.3	294.2 ²	22.9	↑ 382.3	355.8
Annual passing rent (\$m)	5.5	24.7 ²	–	↑ 30.2	29.0
Like-for-like rental growth	3.0%	2.8% ²	–	↑ 2.9%	2.9%
Average passing yield	8.4%	8.5% ²	–	↓ 8.4%	8.7%
Occupancy (by number)	100%	99%	–	99%	99%
WALE (by income) years	8.0	8.6 / 9.2 ³	–	↓ 8.4 / 8.9³	8.5%
Assets % metropolitan	85.7	53.1	–	↑ 59.0	58.9%

¹ Includes 3 surplus vacant sites and excludes 4 development properties not settled.

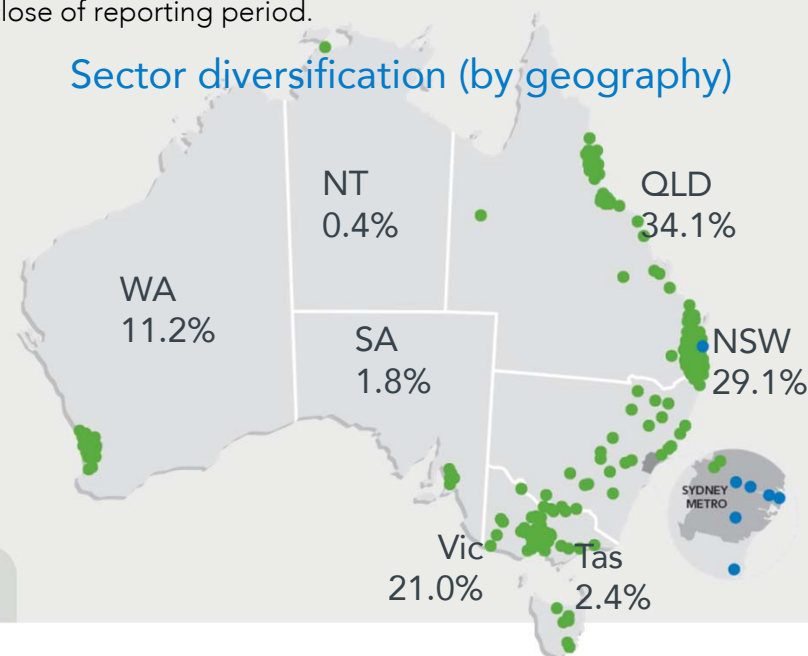
² Excludes impact of market rent reviews and additional lease extensions agreed post balance date.

³ Includes additional leases that were extended for five years, agreed after close of reporting period.

Sector diversification (by value)



Sector diversification (by geography)



4.3 Tenant strength

Strong business environment for Australian social infrastructure assets

- Childcare industry consolidation leading to larger, better capitalised tenants.
- Post balance date 45 market rent reviews completed at an average of 6% increase and a further 20 options exercised.
- ARF tenants have strong underlying business fundamentals:

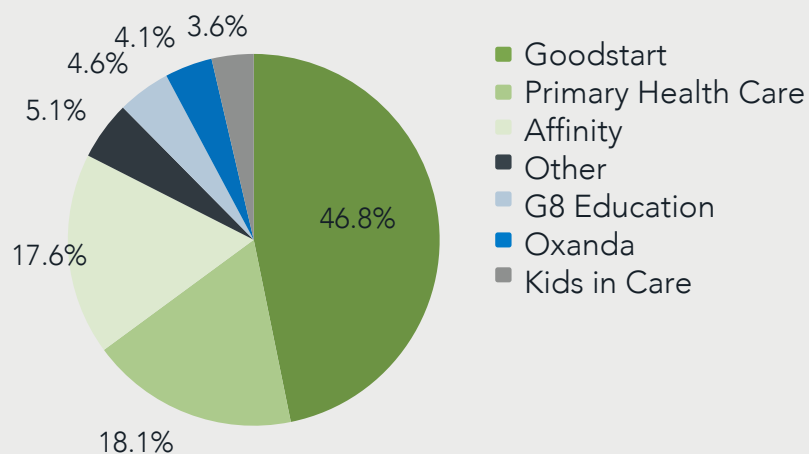
Childcare portfolio:

- 10.3% - average rent as proportion of gross revenue
- \$81.50 - average daily fees
- >\$245k - average centre profit

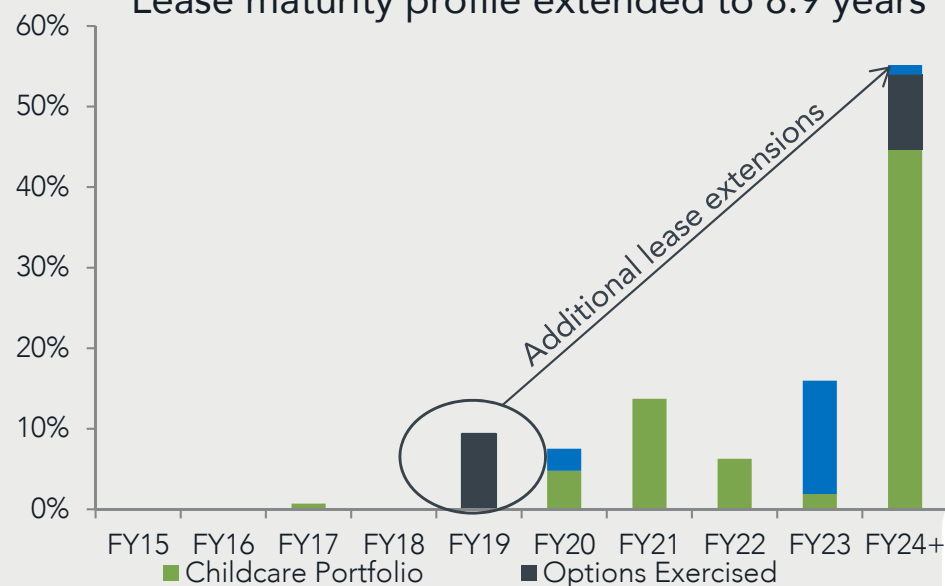
Healthcare portfolio:

- Major tenant in an expansionary mode
- GP visitation forecast to increase by 4.2%

Tenants by net income (%)



Lease maturity profile extended to 8.9 years



Portfolio value movement

Positive portfolio gains

Independent Valuations	Number of assets	Value (\$'000)	Passing Yield	Movement (%)
Queensland	26	50,175	8.83%	2.5%
New South Wales	11	16,465	7.71%	17.0%
Victoria	15	29,730	7.66%	12.8%
Tasmania	5	7,230	8.77%	5.5%
Western Australia	4	6,800	7.41%	10.8%
Total Independent Valuations	61	110,420	8.26%	7.9%
Director Valuations	Number of assets	Value (\$'000)	Passing Yield	Movement (%)
Queensland	46	72,831	9.15%	1.3%
New South Wales	14	19,645	8.07%	1.5%
Victoria	34	33,025	8.01%	6.9%
Tasmania	1	1,245	9.32%	–
Western Australia and Northern Territory	19	33,025	8.01%	1.1%
South Australia	4	6,220	9.03%	0.8%
Development Sites	10	22,864	–	–
Total Director Valuations – Childcare	128	206,626	8.51%	2.7%
Total Director Valuations – Healthcare	7	65,250	8.37%	1.6%
Total Director Valuations	135	271,876	8.47%	2.2%
Portfolio Value	196	382,296	8.4%	3.8%

- Net revaluation increase of \$13.7 million.
- 31% of the portfolio independently valued.
- Continued disconnection between real market and valuations.
- Portfolio passing yield firming 28 basis points.



Developments

Successful completion of developments

- Four child care developments completed in six months to 31 December 2014 at total cost of \$9.5 million and average rental yield on cost of 9.1%. A further development at Seaford Meadows was completed post balance sheet date at a cost of \$2.4 million and a rental yield on cost of 9.3%.



MADDINGLEY



PORT DOUGLAS



AUGUSTINE HEIGHTS



GRIFFIN

State	Victoria	Queensland	Queensland	Queensland
No. of places	103	88	74	75
Nature	New purpose built/new site	New purpose built/new site	New purpose built/existing	New purpose built/new site
Tenant	Affinity Education Group	Petit Early Learning Journey	Affinity Education Group	Green Leaves
Project cost (\$m)	\$2.9	\$1.9	\$1.8	\$2.9 ¹
Lease start	31 October 2014	26 November 2014	3 November 2014	3 November 2014
Yield on cost	9.36%	9.44%	9.18%	8.56% ¹

¹ Includes 1,123m² excess land

Development pipeline

Pipeline in place to drive growth (QLD, VIC, NSW and SA)

Properties in construction phase



Estimated
construction
completion

2HFY15

Budgeted
project
cost

c\$7m

Initial
yield
range

9.0% – 9.5%



4 properties owned and 4 under contract and awaiting planning approval



Estimated
construction
completion

FY16

Approx.
project
cost

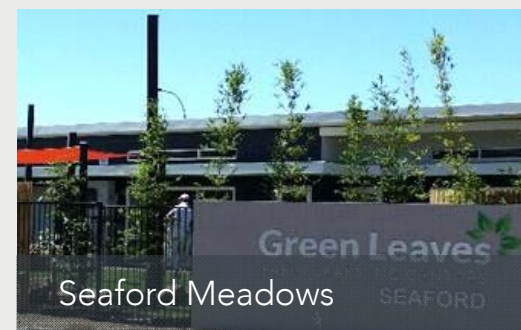
c\$36m

Initial
yield
range

8.5% – 9.0%



- Arena continues to look for further opportunities to add to the development pipeline.





5

Outlook

Bryce Mitchelson



Social infrastructure investment strategy

Accommodating operating businesses that provide important services to the local community



¹ Value of investment property portfolio (excluding developments).

5.2 FY15 outlook

Reaffirming previous FY15 distribution guidance of 10.0¹ cents

- Earnings growth from market rental growth encouraging.
- Firming capitalisation rates and rental growth is driving growth in the underlying property values.
- Continuing to work the development pipeline of new childcare centres with suitable tenancy pre-commitments.
- Seeing a more active and competitive market in Childcare.
- Continuing to actively assess new acquisitions.
- Will continue to look to dispose of smaller and older Childcare centres and improve quality of portfolio.
- Awaiting government policy response to Productivity Commission Inquiry Report.

Notes:

¹ Subject to no unforeseen events. On a status quo basis assuming no new acquisitions and developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations.

² Refer Appendices for investment risks.



6

Questions?



7

Appendix A: Additional information

7.1 Income statement

Half-Year Operating earnings

\$ million	December 2014	December 2013	Change (%)	Commentary
<i>Income</i>				
Lease rental	15.2	11.4	33%	Growth due to asset acquisitions, stapling of Arena REIT No. 2, rent reviews.
Other	0.1	0.0	100%	
Total Operating Income	15.3	11.4	34%	
Direct property expenses	(0.6)	(0.6)	(0%)	
Former Responsible Entity Management fees	(1.4)	(1.0)	40%	Gross assets higher across the period prior to internalisation. No management fees are payable following internalisation in mid December 2014.
Trust administration and other operating expenses	(0.3)	(0.4)	25%	
Finance costs	(2.5)	(1.0)	(150%)	Acquisition funding.
Distributable income	10.5	8.5	24%	
Straight-line rental income	0.2	0.5	(60%)	
Revaluation gain on investment properties	13.8	4.4	214%	Strong market performance and rent reviews have led to property valuation growth.
Change in fair value of derivatives	(1.9)	(0.1)	18%	Increase in hedge book and drop in long term rates.
Stapling and other asset acquisition costs	(1.0)	(0.7)	43%	
Other	(0.1)	(0.0)	(100%)	
Net statutory profit	21.5	12.6	71%	
Distributable income per security (cents)	4.97	4.13	20%	
Distributions per security (cents)	4.90	3.75	31%	

7.2 Balance sheet

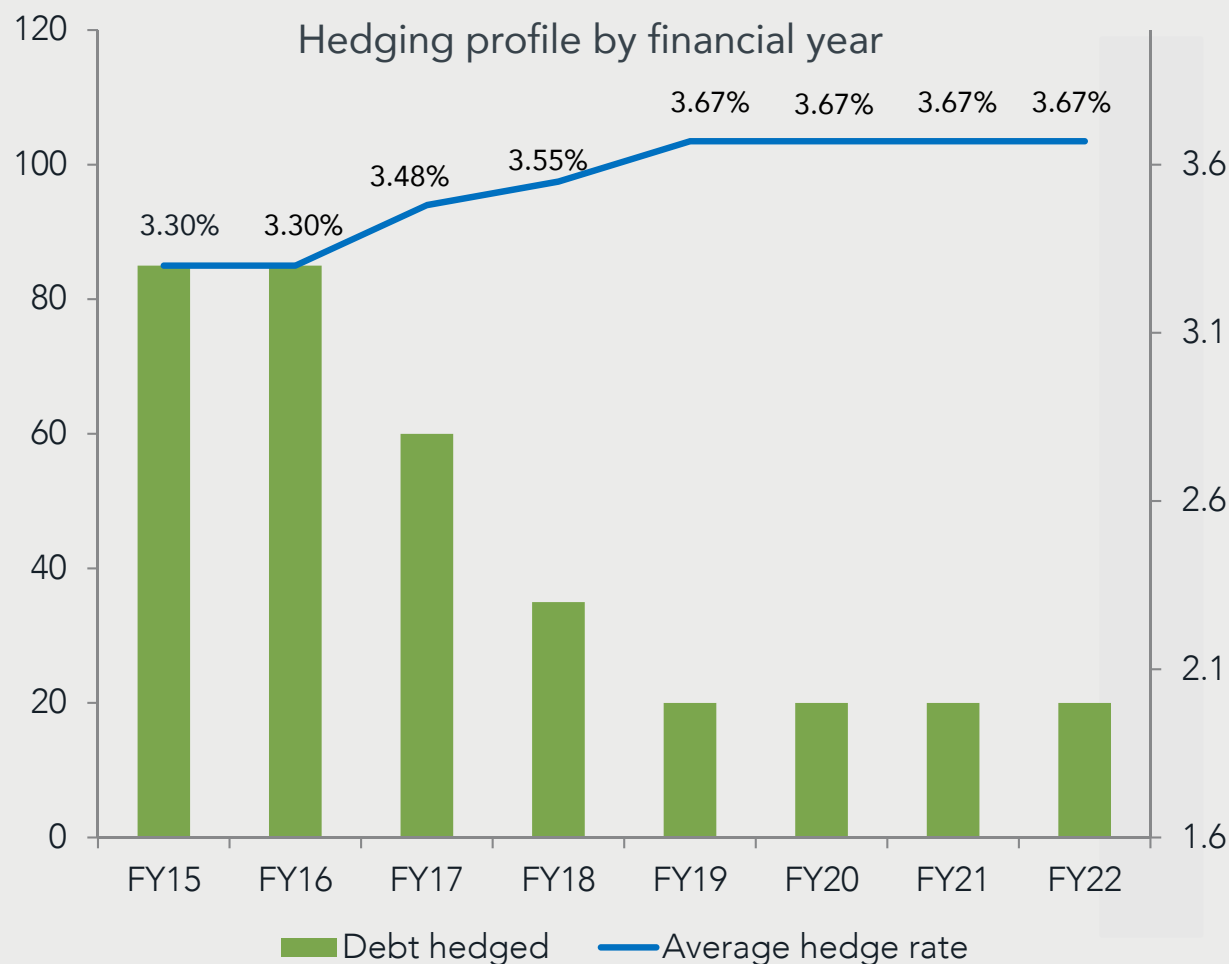
Secure financial position

\$ million	December 2014	June 2014	Change (%)	Commentary
Cash	6.7	3.9	72%	
Receivables and other assets	3.9	15.5	(75%)	Comparative period includes \$14.2 million receivable from investment property sales.
Investment properties	382.3	355.8	7%	Development property acquisitions and capital expenditure, \$13.7 million portfolio revaluation gains.
Intangibles	10.7	-	100%	Management rights acquired on internalisation.
Total assets	403.6	375.3	8%	
Payables and other liabilities	13.3	11.0	21%	
Borrowings ¹	137.8	124.8	10%	Funding for asset acquisitions.
Interest rate swaps	3.1	1.3	138%	New swaps in-line with increased debt.
Total liabilities	154.2	137.1	12%	
Net assets	249.5	210.1	19%	
Number of securities on issue (million)	211.6	211.5	0%	Securities issued under September DRP.
Net asset value per security (\$)	1.18	1.13	4%	Property valuation increase offset by derivative valuation and transaction costs.
Gearing ratio (%) ²	34.2%	33.3%	0.9%	

¹ Borrowings net of loan establishment costs of \$0.2 million (30 June 2014: \$0.2 million) ² Gearing calculated as drawn borrowings/total assets.

7.3 Interest rate management

Hedge maturity profile extended



Hedging profile	31 December 2014
Amount of debt hedged	\$85m
% of drawn debt hedged	62% ¹
Weighted average interest rate of hedges	3.30%
Weighted average maturity of hedges	3.5 years

¹ Increased to 71% in January 2015.

Debt covenants

	Covenant	Actual
Loan to value ratio (LVR)	50%	38%
Interest cover ratio (ICR)	2.0 x	4.14x

Childcare portfolio metrics

Remixing of portfolio has improved portfolio ratios

Portfolio overview	December 2014	June 2014	% change
Leased childcare centres	177	174	1.7%
Available for sale / lease	2	2	-
Development Land	10	10	-
Total properties	189	186	1.6%
WALE (by income) years	8.6 / 9.2 ¹	8.5	1.2%
Tenanted occupancy	99%	99%	-
Average passing yield	8.5% ²	8.75%	(2.9%)
Average places / leased centres	84.4	84.0	0.4%
Property portfolio (\$'000)	317,046	287,079	10.4%
Average value per place	19,337	\$18,237	6.0%
Average rent / leased place	1,637	\$1,596	2.6%
Rental growth (like for like)	2.8%	3.1%	(9.7%)
Metropolitan	53.1%	52.4%	0.8%
Regional	46.9%	47.6%	(1.5%)

¹ Includes additional leases that were extended for five years, agreed after close of reporting period.

² Excludes impact of market rent reviews and additional lease extensions agreed post balance date.

Childcare state by state passing yields

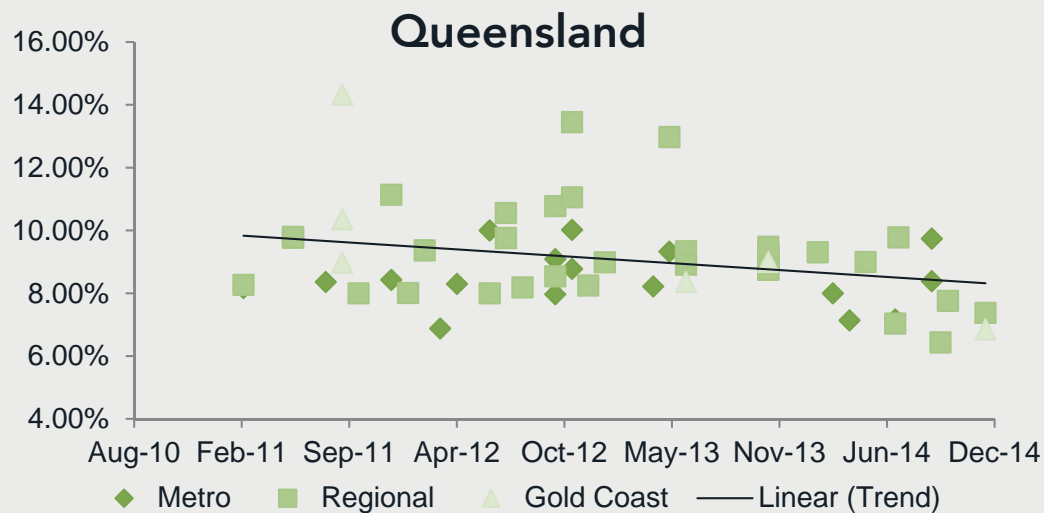
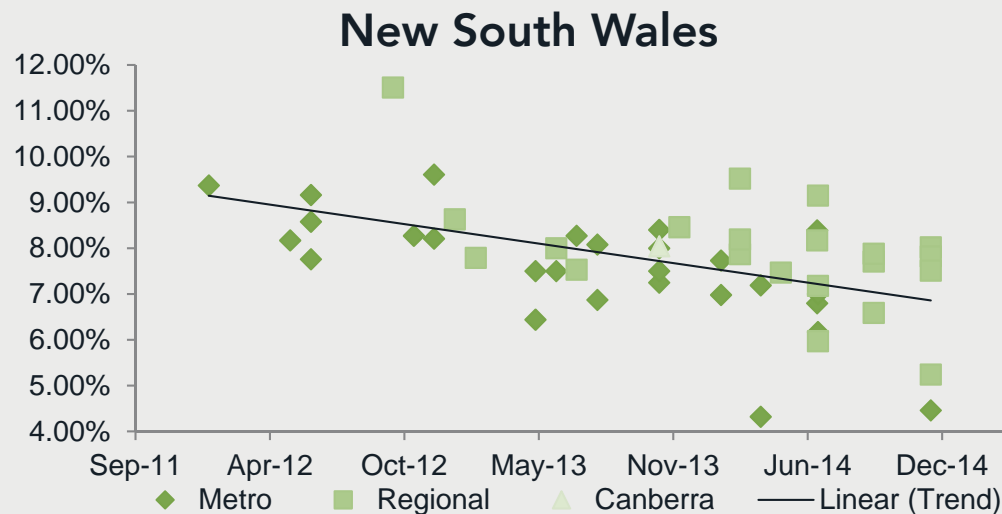
Strong cap rate compression

Portfolio overview	Number of assets	Carrying value (\$'000)	Rent (pa) \$'000	Passing Yield
<i>Queensland</i>	70	117,785	10,730	9.11%
<i>New South Wales</i>	25	36,130	2,855	7.90%
<i>Victoria</i>	49	80,525	6,422	7.97%
<i>Tasmania</i>	6	8,475	750	8.85%
<i>South Australia</i>	4	6,220	562	9.03%
<i>Western Australia</i>	22	38,480	3,029	8.60%
<i>Northern Territory</i>	1	1,345	121	8.98%
Operating childcare centres	177	288,960	24,468	8.50%
<i>Vacant centres (for lease or sale)</i>	2	1,610	–	–
Total childcare centres	179	290,570	24,683	–
<i>Murarie Office Component (leased)</i>	–	2,176	215	9.89%
<i>Murarie Office Component (vacant)</i>	–	1,435	–	–
<i>Childcare sites and WIP</i>	10	22,864	174	–
Total other property sites	10	26,476	389	–
Total property portfolio	189	317,046	24,857	–

- Evidence of strong cap rate compression in NSW, Victoria and WA with Queensland starting to also show signs of tightening.
- Childcare average passing yield has tightened from 8.75% at June 2014 to 8.5% at December 2014.

7.6 Underlying demand driven capital growth

Recent sales show childcare yields firming in Victoria and NSW



ARF childcare portfolio passing yields by State

State	June 2011	June 2012	June 2013	December 2013	June 2014	December 2014
QLD	10.21%	9.87%	9.78%	9.33%	9.12%	9.11%
NSW	9.70%	9.49%	9.52%	9.24%	8.45%	7.90%
VIC	9.22%	9.14%	9.12%	9.08%	8.64%	7.97%

Childcare Productivity Commission inquiry report

Report released February 2015

Recommendations to Government include:

- Government to combine Child Care Benefit and Child Care Rebate into a single child-based subsidy to be known as Early Care and Learning Subsidy (ECLS).
- Family assistance determined by a benchmark price for services.
- ECLS to cover (on a sliding scale) between 85% of costs for families at or below \$60,000 and 20% for families earning \$250,000 or more.
- The ECLS to be available to approved Early Childhood and Education Care Services whether they are centre based or home based.
- The ECLS to be available to appropriately qualified nanny services.
- Additional funding for childcare providers in rural and regional areas in certain circumstances.
- Removing the maximum number of occasional care places and abolishing the requirement that occasional childcare centres are open a set number of hours to receive subsidies.
- School principals to ensure that there is before and after school care services for their students.
- Fast tracking approval processes for the licencing of childcare centres.

7.8 Investment case

Strong fundamentals



Relatively Long leases

Weighted average lease expiry (WALE)

8.9¹ years

Provides a predictable income stream and attractive yield.



Geographic diversity

Childcare centres located across all 6 states of Australia and the Northern Territory, 7 medical centres located in and around Sydney and Brisbane.



Favourable macro fundamentals

Growing demand for childcare services.

18.4% growth in number of children 0-4 years from 2001-2013.

\$5 billion

Govt. expenditure on childcare 2013-2014.

Ageing, growing population driving demand for healthcare services.



Experienced internalised management

Strong capability in property funds management, overseen by majority independent RE Board.

Internalised management enhances alignment of Board and Management with investor interests.



Relatively low gearing

Arena REIT's gearing ratio is currently 34.2% with a maximum gearing range of 35% - 45%.

¹ Including leases extended post balance date.



8

Appendix B: Foreign jurisdictions

8.1 Foreign jurisdictions

This document does not constitute an offer of new stapled securities ("New Securities") of ARF in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Securities may not be offered or sold, in any country outside Australia except to the extent permitted below.

Hong Kong

WARNING: This document has not been, and will not be, authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorize this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Securities have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the New Securities has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the New Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the SFO and any rules made under that ordinance.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the "FMC Act"). The New Securities are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore ("MAS") and, accordingly, statutory liability under the Securities and Futures Act, Chapter 289 (the "SFA") in relation to the content of prospectuses does not apply, and you should consider carefully whether the investment is suitable for you. The issuer is not authorised or recognised by the MAS and the New Securities are not allowed to be offered to the retail public. This document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the New Securities may not be circulated or distributed, nor may the New Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except to "institutional investors" (as defined in the SFA), or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

This document has been given to you on the basis that you are an "institutional investor" (as defined under the SFA). In the event that you are not an institutional investor, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Securities being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.



9 Appendix C: Investment risks

9.1 Investment risks

Investors should carefully consider the risk factors described below. If you require further information regarding the appropriateness or potential risks of investing in ARF, you should seek appropriate financial advice. All investments involve risk and there are many factors that can impact on the performance of an investment. This summary details some of the major risks that you should be aware of when investing in ARF. Investors should be aware that the list of risks described below may not cover all possibilities and should also consider risks specific to their situation.

Key risks relating to ARF

(a) Concentration risk

The current portfolio of ARF is invested in childcare centres, medical centres and childcare development sites. Adverse events to the childcare and/or healthcare property sectors may result in general deterioration of tenants' ability to meet their lease obligations across the portfolio or to future growth prospects of the current portfolio.

(b) Tenant risk

ARF relies on tenants to generate the majority of its revenue. A substantial proportion of ARF's tenants are not for profit companies limited by guarantee or private companies. If a tenant is affected by financial difficulties it may default on its rental or other contractual obligations which may result in loss of rental income or losses to the value of ARF's properties.

(c) Licensing

The provision of childcare and healthcare services are regulated activities. There is therefore a risk that if the relevant tenants' licence is revoked, no suitably qualified replacement tenant may be found.

(d) Government policy risk and change in law

Childcare and healthcare operators rely heavily on government funding which, if reduced, may adversely impact the underlying demand for these services and therefore tenants' ability to meet lease obligations and/or their demand for these properties. There is a risk that there may be changes in legislation, government policies or legal or judicial interpretation relating to the childcare and/or healthcare sectors.

(e) Alternative use risk

The risks associated with investing in property assets can be greater for special purpose facilities such as childcare and healthcare properties, which may require extensive expenditure and rezoning to be suitable for other commercial purposes. ARF's performance depends in part on the demand for childcare and healthcare properties in Australia. Most childcare and healthcare properties would require extensive expenditure and rezoning to be suitable for other commercial purposes.

(f) Acquisitions and divestments

ARF intends to make additional acquisitions of assets in accordance with its investment strategy. Future acquisitions may affect ARF's financial performance. The value of ARF's properties may vary as a consequence of general market conditions, the property market, or factors specific to an individual property. ARF may be required to sell one or more properties, which may result in a capital loss.

(g) Re-leasing and vacancy

There is a risk that ARF may not be able to negotiate suitable lease extensions with existing tenants or replace outgoing tenants with new tenants on substantially the same terms. ARF could also incur additional costs associated with re-leasing the properties. Re-leasing the properties would depend on numerous market conditions and financial considerations prevalent at that time.

(h) Rental income

Distributions made by ARF are largely dependent upon the rents received from its property portfolio and expenses incurred during operations. ARF has made a number of assumptions in relation to the level of rental income ARF will receive. However, rental income may differ from those assumptions and may be affected by a number of factors, including:

- (i) overall macroeconomic conditions;
- (ii) competition from other childcare centres and healthcare properties;
- (iii) the financial condition of tenants;
- (iv) increase in rental arrears and vacancy periods;
- (v) changes in government policies relating to the childcare and healthcare sectors;
- and
- (vi) supply and demand in the property market.

9.1 Investment risks

(i) Property valuations

Changes in the property market, especially changes in the valuation of properties and in market rents, may adversely affect ARF's financial performance and the price of ARF securities. In addition, the valuations of ARF's properties are the best estimates at the time of undertaking the valuation and may not reflect the actual price a property would realise if sold. The valuations are subject to a number of assumptions which may prove to be inaccurate.

(j) Development risk

In certain circumstances, ARF may be exposed to development risk, resulting from the development of new properties, the refurbishment of existing properties or additions and extensions to existing properties. Property development carries a number of risks, including:

- (i) issues surrounding applications for planning approvals from local authorities which can result in delays or require amendments to plans both of which may result in increased costs;
- (ii) breach of contract by building contractors; and
- (iii) unforeseen circumstances which cause project delays or increases to building costs.

A number of factors affect the earnings, cash flows and valuations of commercial property developments, including construction costs, scheduled completion dates and securing tenants at estimated rental income.

(k) Property liquidity

Property assets are by their nature illiquid investments. ARF may not be able to realise the assets within a short period of time or may not be able to realise assets at valuation. This may affect ARF's net asset value or the trading price of ARF securities.

(l) Environmental issues

As with any property, there is a risk that one or more of ARF's properties may be contaminated now or in the future. Government environmental authorities may require such contamination be remediated. There is always a residual risk that ARF may be required to undertake any such remediation at its own cost. In addition, environmental laws impose penalties for environmental damage and contamination which can be material in size. Exposure to hazardous substance at a property within ARF's portfolio could result in personal injury claims. Such a claim could prove greater than the value of the contaminated property. An environmental issue may also result in interruptions to the operations of a property, including the closure of the property. Any lost income caused by such an interruption to operations may not be recoverable.

(m) Occupational health and safety

There is a risk that liability arising from occupational health and safety matters at one or more of ARF's properties may be attributable to ARF as the landlord instead of, or as well as, the tenant. To the extent that any liabilities may be borne by the ARF, this may impact upon the financial performance of ARF (to the extent not covered by insurance). In addition, penalties may be imposed upon ARF which may have an adverse impact on ARF.

(n) Capital expenditure

Capital expenditure may exceed ARF's current forecasts which could adversely impact ARF's financial performance.

(o) Insurance

ARF maintains a range of insurances relating to its properties with policy specifications and insured limits that it believes to be customary in the industry. However, potential losses of a catastrophic nature such as those arising from earthquakes, terrorism or severe flooding may be uninsurable or not insurable on reasonable financial terms, may not be insured at full replacement costs or may be subject to large excesses. The nature and cost of insurance has been based upon the best estimate of likely circumstances. However, various factors may influence premiums to a greater extent than those forecast, which may in turn have a negative impact on the financial performance of ARF.

(p) Investment characteristics

ARF's subsidiaries provide property management services which involve additional risks including risks arising from any failure by ARF to comply with its contractual commitments. ARF is exposed to the risks associated with the external management of investment syndicates, including the wind down of such investment syndicates and the associated loss of management fee income and cost recoveries.

(q) Regulatory risks

There are inherent risks associated with the maintenance of an Australian Financial Services Licence ("AFSL"). These regulatory requirements may increase over time if regulations change or if ARF's business grows.

(r) Dependency on key staff

The specialised nature of ARF's asset portfolio requires a manager with extensive experience in the childcare and healthcare sectors. The loss of key staff or inability to attract new qualified staff could adversely affect ARF's operations and performance.



9.1 Investment risks

Key risks relating to investing in ARF securities

(a) Economic and market conditions

A number of factors affect the performance of the equity market, which could affect the price at which ARF securities trade on the ASX. Among other things, movements on international and domestic stock markets, interest rates, exchange rates, inflation and inflationary expectations and overall economic conditions, economic cycles, investor sentiment, political events and levels of economic growth, both domestically and internationally as well as government taxation and other policy changes may affect the demand for, and price of ARF securities. Additionally, equity markets can experience price and volume fluctuations that may be unrelated or disproportionate to the operating performance of ARF.

(b) Distribution guidance

No assurances can be provided in relation to the payment of future distributions. Future determinations as to the payment of distributions by ARF will be at the discretion of ARF and will depend upon the availability of profits, the operating results and financial conditions of ARF, future capital requirements, covenants in relevant debt facilities, general business and financial conditions and other factors considered relevant by ARF. No assurance can be given in relation to the level of tax deferral of future distributions. Tax deferred capacity will depend upon the amount of tax depreciation available and other factors.

(c) Trading liquidity

Liquidity of ARF securities will be independent on the relative volume of buyers and sellers in the market at any given time, which may be impacted by various factors. Large securityholders choosing to trade out of their positions may also affect the market by absorbing trading liquidity.

(d) Dilution risk

As ARF issues securities to new Investors, existing securityholders' proportional beneficial ownership in the underlying assets of ARF and proportional entitlement of any distributions may be reduced.

(e) Funding

ARF's ability to raise funds from either debt or equity sources in the future depends on a number of factors, including, the state of debt and equity markets, the general economic and political climate and the performance, reputation and financial strength of ARF.

Other risks related to ARF and property fund investments

(a) Interest rates

Unfavourable movements in interest rates relating to ARF's debt facilities could lead to increased interest expense, to the extent that interest rates are not hedged.

(b) Banking obligation risk

Under ARF's debt facilities, ARF is subject to a number of undertakings and covenants, including in relation to gearing levels and interest cover ratios. An event of default would occur if ARF fails to maintain these financial covenants. This may be caused by unfavourable movements in interest rates (to the extent interest rates are not hedged) or deterioration in the income or the value of ARF's investments. In the event that an event of default occurs, the lender may require immediate repayment of ARF's debt facilities. ARF may need to dispose of assets for less than valuation, raise additional equity or reduce or suspend distributions in order to repay ARF's debt facilities, if this occurs.

(c) Financing

There is a risk that ARF may not be able to refinance its debt facilities and/or interest rate hedge before expiry or may not be able to refinance them on substantially the same terms as ARF's existing facility and/or hedge instruments.

(d) Gearing

ARF's gearing level will magnify the effects of any changes in interest rates or changes in property values or performance measures. If the level of gearing increases over the term of ARF's debt facilities, this may affect the ability of ARF to refinance its debt facilities.

(e) Litigation

ARF may in the ordinary course of business be involved in possible litigation and disputes (for example, tenancy disputes, development disputes, occupational health and safety claims or third party claims). A material or costly dispute or litigation may adversely affect the operational and financial results of ARF.

(f) Tax and stamp duty

Changes in tax or stamp duty law or changes in the way tax or stamp duty law is expected to be interpreted in Australia may adversely impact ARF's financial performance and the value of ARF securities.

Further information

Bryce Mitchelson

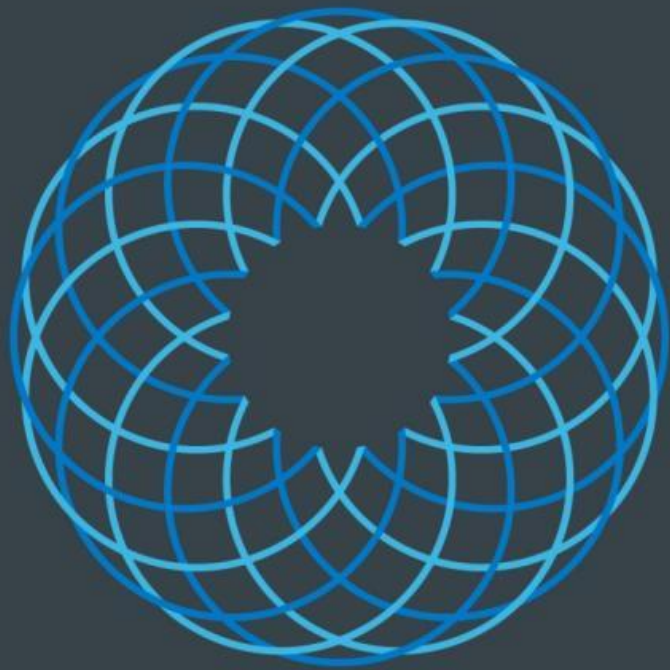
- Managing Director
- 03 9093 9120
- bryce.mitchelson@arena.com.au

Investor and Adviser Services

- Freecall 1800 008 494
- info@arena.com.au

Visit us at www.arena.com.au





Arena