Arena REIT
ASX Code: ARF

ASX Announcement
25 August 2015

FY15 ANNUAL RESULTS
Delivering value for investors

Arena REIT (**Arena**) today issued its Annual Report for the year ended 30 June 2015 (FY15). The key highlights are as follows:

- Statutory Net Profit of $61 million (up 37% on prior year);
- Distributable income or Operating Profit of $22.1 million, equating to 10.2 cents per security (up 15% on prior year);
- Net revaluation increase (including profit on disposals) of $42.1 million, contributing to the increase in Arena's net asset value to $1.33 per security (up 18% on the prior year);
- Return on Equity of 22% (up from 20% the prior year);
- Successful implementation of the management internalisation restructure delivering expected overhead savings;
- Completion of seven modern purpose-built childcare centres at an average initial yield on cost of 9.4%;
- The disposal of four older style childcare centres for an aggregate price of $7.6 million (average premium to book value of 51%);
- Balance sheet gearing of 29.1% (down from 33.3% as at 30 June 2014); and
- FY16 distribution guidance of 10.7[1] cents per security (up 7% on FY15).

Arena's Chairman, Mr David Ross said "Arena has had another successful and active year with the investment portfolio and management team delivering strong results for investors. I am also pleased to advise that the management internalisation has been successfully implemented and the expected overhead savings for the year have been delivered."

"Over the past 12 months, property market conditions have remained strong. We have taken advantage of this by disposing of a number of older style childcare centres and by building several new modern childcare centres in markets with demand for childcare services, all leased on attractive return metrics. These market conditions and activities contributed to Arena outperforming the benchmark ASX 300 A-REIT Accumulation Index by 16.1%, returning a strong 36.3% over the year."

---

[1] On a status quo basis assuming no new acquisitions or dispositions, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations.

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)

71 Flinders Lane
Melbourne VIC 3000
www.arena.com.au

Locked Bag 32002 Collins Street East
Melbourne VIC 8003
info@arena.com.au

T +61 3 9093 9000
Freecall 1800 008 494
F +61 3 9093 9093

Arena

DELIVERING EARNINGS GROWTH

Mr Bryce Mitchelson, Arena's Managing Director added "The improvement in Arena's Distributable Income per security over the year is attributed mainly to accretive acquisitions in the prior year, strong market rent review increases, the completion of new purpose-built childcare centres and management cost savings."

Key metrics	FY15	FY14	Change Value	Change %
Statutory net profit (million)	$61.0	$44.6	$16.4	+37%
Operating profit (million)	$22.1	$18.5	$3.6	+19%
Operating profit (cents per security)	10.2	8.85	1.35	+15%
Distribution per security (cents per security)	10.0	8.75	1.25	+14%
Distribution pay-out ratio	98.0%	98.9%	-9bps[2]	-0.9%
Tax deferred component	44%	28%	+16%	+57%
Management expense ratio	0.7%	1.01%	-31bps[3]	-31%

The management internalisation approved by investors in December 2014 has resulted in management expenses declining for the second half of FY15.

ACTIVE CAPITAL MANAGEMENT

In February 2015, Arena successfully completed an institutional placement at $1.60 per security which raised $25 million before costs. In addition, Arena's distribution reinvestment plan (DRP) was opened during the year which raised a further $1.9 million at an average issue price of approximately $1.59 per security. This equity capital has been used to reduce borrowings and provide additional new investment capacity.

New equity issuance, together with strong net revaluation and disposal gains have contributed to reducing Arena's gearing to 29% at the end of the year, (below its maximum gearing range of 35% to 45%), improving Arena's ASX market capitalisation and net asset value (NAV) per security.

Key metrics	FY15	FY14	Change Value	Change %
Total assets (million)	$450.6	$375.3	$75.3	+20%
Borrowings (million)	$131.0	$125.0	+$6.0	+5%
Balance sheet gearing	29.1%	33.3%	-420 bps[2]	-12.6%
Net asset value (million)	$303.5	$238.2	$65.3	+27%
ASX market capitalisation (million)	$351.6[4]	$253.8	$97.8	+39%
NAV per security	$1.33	$1.13	$0.20	+18%
Securities on issue (million)	228.3	211.5	16.8	+8%

[2] Basis points.
[3] Basis points.
[4] Based on Arena REIT ASX closing price of $1.535 as at 30 June 2015.

No significant changes have occurred in relation to Arena's debt facilities over the past six months.

As at 30 June	2015	2014	Change
Debt facility limit (million)	$175	$155	+$20
Undrawn debt capacity (million)	$44	$30	+$14
Average debt maturity period (years)	3.0	4.0	-1.0
Interest rate hedging cover	69%	68%	+1.0%
Weighted average hedge expiry (years)	3.5	3.1	+0.4
Weighted average cost of debt as at 30 June	4.3%	4.8%	-0.5%

Arena REIT is comfortably in compliance with its debt facility requirements, the key financial covenants being as follows:

As at 30 June 2015	Covenant	Actual
Loan to Valuation Ratio (LVR)	50%	35%[5]
Interest Cover Ratio (ICR)	2.0x	4.5x

Based on current book values, the portfolio would need to decline in value by more than approximately 38% for the LVR covenant to be at the covenant limit.

Arena currently has undrawn debt capacity of $44 million to fund its development pipeline and any new investments.

WELL PERFORMING INVESTMENT PORTFOLIO

Many of Arena's key underlying property portfolio metrics improved during the year including its weighted average remaining lease term to expiry (WALE) as noted below:

Property metric	Medical centres	Childcare centres	Development sites	Total FY15	Total FY14	Change
Number of properties	7	179	11	197	193	+2.1%
Value (million)	$67	$323	30	420	355.8	+18.0%
Annual passing rent (million)	$5.5	$25.6	–	31	29.0	+7.6%
Average rental growth	2.7%	3.5%		3.4%	2.9%	+50bps
Average passing yield	8.2%	8.0%	–	8.0%	8.7%	-70bps
Occupancy (by number)	100%	99%	–	99%	99%	–
WALE (by income) years	7.5	9.3	–	8.9	8.5	+0.4

The key portfolio highlights for the year include:

- **Rental growth** – All properties were subject to annual rent reviews or new leases with 74.4% subject to a CPI (or fixed automatic rent increases of between 2 and 3%) and the remainder to

[5] Based on most recent independent valuation.

market rent reviews. The average rent review increase of 3.4% was higher than the prior year growth as a consequence of 45 market reviews being agreed at an average increase of 6% during the year.

- **Lease extensions** – During the year, 45 lease extensions were agreed representing a renewal rate of 100%.
- **Lease assignments** – During the year, 14 leases were transferred to better performing tenants and in some instances, leases were further extended. ASX listed tenants now represent 40% of the portfolio by income.
- **Remixing of portfolio** – In net terms, the overall property portfolio increased by four properties:
    - **Medical centres** – There was no change during the period.
    - **Childcare centres (3)** – The number of childcare centres grew by three centres representing the completion of six development projects, the disposal of four centres at an aggregate price of $7.6 million (reflecting a premium to book value of 51%) and the acquisition of one centre off-market for $1.8 million with an initial yield of 8% leased for 20 years.
    - **Development sites (1)** – The number of childcare development sites grew by a net one, representing the completion of six projects, the acquisition of a further six sites and the land sub-division of an existing property.
- **Property revaluations** – For the year, the net revaluation increment booked was $39.8 million, a like-for-like increase for the year of 11%. For the six months ended 30 June 2015, 18 childcare centres were independently revalued representing 6.4% of the whole portfolio and these increased on average by 18.7%; all remaining properties were internally reviewed and director's revaluations adopted representing an average increase of 5.8%.
- **Childcare development projects** – During the year, Arena has actively progressed existing projects as well as identifying appropriate new sites for future development working with its preferred childcare operator relationships. Arena uses a combination of demographic data (demand) and existing and new supply information to review the viability of new childcare centres. New sites are only acquired if Arena has secured a tenancy pre-committment for the completed centre:
    - **Completed** – Six purpose-built childcare centres and an expansion of an existing centre were completed for an approximate total cost of $17 million and had a commencing rental representing an average initial yield of 9.4%. All new leases had an initial term of 15 years.
    - **Development pipeline** – Arena has a total of 11 sites at varying stages in the development process. Arena has incurred costs of approximately $30 million and has estimated costs of $15 million to complete (excluding those in negotiation or in feasibility):
        - **In construction (3)** – Arena currently has three projects in the construction phase which have an expected total cost of approximately $12 million and an average initial yield of 9.2% on total cost, with two of these expected to be completed in the 1st half of FY16.
        - **Ready to commence construction (1)** – One project has received planning approval and is expected to commence construction shortly.
        - **Awaiting planning (4)** – A further four projects are subject to obtaining planning approval before building works can commence.

  - **In negotiation (2) –** Two sites already owned by Arena upon which tenancy pre-commitment terms have been agreed subject to development planning approval being obtained.
  - **In feasibility (1) –** One site already owned by Arena is currently in the feasibility stage.
- **Underlying childcare tenant profitability improved** – Arena receives business operating data from its childcare centre tenants on a confidential basis. On a portfolio level, this data indicates that the underlying business profitability of the centres has improved over the past 12 months.

Childcare Portfolio attributes	30 June 2015	30 June 2014	Change Value	%
Total approved childcare places	15,060	14,609	451	+3.1%
Average number of places / centre	84.1	83.9	0.2	+0.2%
Childcare average rent / place	$1,685	$1,596	$89	+5.6%
Purpose built centres	95.46%	94.52%	n/a	+0.9%
Number of tenant groups	14	14	-	-

COMPETITIVE PROPERTY MARKET CONDITIONS

Property market conditions have generally remained strong for the past 12 months, especially in the Sydney and Melbourne markets. The low interest rate environment driven by the Reserve Bank of Australia reducing cash interest rates in response to slowing economic growth has fuelled investor demand and competition for assets, especially those with comparatively higher yields and secure income streams. This has driven property prices up and market yields down across most property sectors, including the childcare and medical centre sectors, which has been reflected in Arena's portfolio and performance in the last year.

In the childcare property sector, strong market conditions and high demand for childcare services has encouraged an increase in the supply of new centres being built. This demand for childcare services is being underpinned by several factors including the growth in the number of children up to 5 years of age, increasing female work place participation and government cost subsidisation. The Federal Government announced in its May 2015 Budget Papers that it proposes to significantly increase its funding of the childcare sector by $3.5 billion from 1 July 2017.

Arena will maintain its disciplined approach to portfolio management and acquisition opportunities in the prevailing market conditions and will continue to review opportunities in property sectors with Arena's preferred investment characteristics.

FY16 DISTRIBUTION GUIDANCE + 7%

Looking forward to the financial year ended 30 June 2016 and taking into account the expected rental growth from the existing portfolio, the full benefit of overhead savings and the completion of new childcare centres, Arena advises distribution guidance of 10.7 cents per security[6].

[6] On a status quo basis assuming no new acquisitions or dispositions, developments in progress are completed in line with budget assumptions, and tenants comply with all their lease obligations.

This distribution guidance represents an increase of 0.7 cents per security and equates to 7% distribution growth compared to FY15. At the current ASX price of $1.51[7], this distribution guidance reflects an FY16 distribution yield of 7.1%.

MANAGEMENT CONFERENCE CALL PRESENTATION

Arena will be hosting a conference call at 11.00am today (Tuesday 25 August 2015), to present and discuss the FY15 operating results and answer questions. A copy of the annual results presentation has also been lodged on the ASX reporting platform and on Arena's website (www.arena.com.au). To listen to the management presentation, please register and obtain the call details using the following link: http://www.arena.com.au/arena-reit/arena-reit-fy15-annual-results-teleconference.

FURTHER INFORMATION

Media enquiries:
Bryce Mitchelson
Managing Director
+61 408 275 375
bryce.mitchelson@arena.com.au

Investor enquiries:
1800 008 494 (Freecall within Australia), or
Tanya Devine
Investor Relations Manager
tanya.devine@arena.com.au

About Arena REIT

Arena REIT (ARF) is a leading Australian property investor and manager with assets under management of approximately $480 million currently invested in childcare and medical centres with relatively long leases and secure income streams.

To find out more, please visit us at www.arena.com.au

Disclaimer

[7] Arena REIT ASX price as at market close 24 August 2015.

This document 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.

This document contains forward-looking statements including certain forecast financial information. The words “anticipate”, “believe”, “expect”, “project”, “forecast”, “estimate”, “outlook”, “upside”, “likely”, “intend”, “should”, “could”, “may”, “target”, “plan”, and other similar expressions are intended to identify forward-looking statements. The forward-looking statements are made only as at the date of this announcement and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Arena REIT and its directors. Such statements are not guarantees of future performance and actual results may differ materially from anticipated result, performance or achievements expressed or implied by the forward-looking statements. Other than as required by law, although they believe there is a reasonable basis for the forward-looking statements, neither Arena REIT nor any other person (including any director, officer, or employee of Arena REIT or any related body corporate) gives any representation, assurance or guarantee (express or implied) as to the accuracy or completeness of each forward-looking statement or that the occurrence of any event, result, performance or achievement will actually occur. You should not place undue reliance on any of the forward-looking statement