ASX Announcement
Arena REIT (ASX Code: ARF)

25 AUGUST 2016

FY16 ANNUAL RESULTS

Strategy continues to deliver predictable and growing income

FINANCIAL HIGHLIGHTS

- Net Operating Profit of $25.6 million, up 16% on FY15
- Statutory Net Profit of $72.6 million, up 19% on FY15
- Earnings per Security of 11.1 cents, up 9% on FY15
- Distributions per Security of 10.9 cents, in line with guidance and up 9% on FY15
- Total Assets of $514 million, up 14% on FY15
- Net Asset Value (NAV) per security of $1.54, up 16% on FY15
- Return on Equity (ROE) of 22.2% pa
- Annual Total Securityholder Return (TSR) of 37.6% pa[1]
- FY17 Distribution guidance of 11.7 cents per security[2], reflecting forecast growth of 7.4% on FY16

Arena REIT (Arena) has today announced a net operating profit for the year ended 30 June 2016 of $25.6 million, up 16% on the prior year. Underpinning this strong result was growth in rental income from both the underlying portfolio and completed development projects, as well as lower borrowing costs following the renegotiation of the debt facility in December 2015.

Statutory net profit for the year was $72.6 million, an increase of 19% over FY15 and included a $51.1 million increase in property valuations across the portfolio.

On a per security basis, Arena delivered FY16 earnings per security (EPS) of 11.1 cents, reflecting growth of 9% over FY15, and bringing the compound annual EPS growth over the three years since listing to 11% per annum. Arena has paid an annual distribution of 10.9 cents per security, in line with guidance and representing a payout ratio of 98%.

Arena's total assets increased by 14% to $514 million at 30 June 2016, predominantly as a result of the $51.1 million revaluation uplift on the property portfolio. This uplift also contributed to a $0.21 increase in Net Asset Value (NAV) per security, up from $1.33 at 30 June 2015 to $1.54 at 30 June 2016.

Importantly, operating expenses were unchanged at $3.2 million, reflecting efficient cost management over an increased asset base.

[1] *UBS Monthly Report, 30 June 2016.*
[2] *Estimated on a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions, and tenants comply with their lease obligations.*

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Commenting on the strong overall result, Arena's Managing Director Mr Bryce Mitchelson said "Our strategy to invest in specialised real estate sectors that exhibit strong underlying demand has underpinned FY16 growth in both earnings and valuations.

"In particular, our favourable lease structure has provided attractive rental income growth, and our execution of quality childcare development projects continues to deliver earnings accretion and enhance the quality of the portfolio."

For the year ended 30 June 2016, Arena generated an annual total securityholder return of 37.6%[3], significantly ahead of the S&P/ASX300 A-REIT Accumulation Index annual return of 24.6%.[3]

PORTFOLIO OPERATING HIGHLIGHTS

- Like-for-like rental income growth of 3.6%[4]
- 100% occupancy achieved
- 32 lease options for FY21 expiries renewed (100% renewal rate)
- Weighted average lease expiry (WALE) extended to 9.7 years
- Portfolio valuation uplift of $51.1 million
- Four development projects completed at cost of $19.1 million
- Development pipeline of 14 projects at a forecast cost of $52 million due for FY17-FY18 completion

Rent review structure delivering real income growth

Like-for-like rental income increased by 3.6%[4] in FY16, through a combination of annual rent reviews and renegotiated leases.

Review type	Number of reviews	Proportion of portfolio income subject to review	Rental growth
'Fixed' or 'Greater of 2.5% or CPI'	135	78%	3.7%
CPI	12	9%	1.7%
Market (completed)	13	6%	5.7%
Market (currently in determination)	18	7%	tba

The 78% of portfolio income subject to 'Fixed' or 'Greater of 2.5% or CPI' recorded growth of 3.7%. This included rental increases as a result of 12 renegotiated leases, which together comprised 5% of portfolio income.

The 13 market reviews that have been completed in FY16 are in Queensland (5), South Australia (4), Tasmania (3) and Northern Territory (1), where an average increase of 5.7% was achieved. A further 18 FY16 market reviews in NSW, VIC and WA (representing 7% of portfolio income) are currently in independent determination.

[3] *UBS Monthly Report, 30 June 2016*
[4] *Excludes outcome of 18 FY16 market rent reviews that are in determination.*

Arena's Head of Property, Mr Rob de Vos said "In the current low inflation environment, having the 2.5% minimum floor across the majority of our annual rent reviews provided real growth in rental income. This was further buoyed by the positive outcomes received as a result of renegotiated leases and on market reviews completed to date."

In FY17, 83% of the portfolio (by income), is subject to either 'Fixed' or 'Greater of 2.5% or CPI' rent review. Importantly, in the current low inflation environment, only 12% of FY17 portfolio income is subject to a maximum review at CPI.

Portfolio defensive characteristics enhanced through active management

The portfolio was further strengthened throughout FY16, with occupancy increased to 100% and the portfolio's weighted average lease expiry (WALE) extended to 9.7 years through the renewal of 32 lease options and the renegotiation of 12 existing leases on new 20 year terms.

Mr de Vos said "The 32 lease option renewals for leases expiring in FY21 reflect a 100% renewal rate, and are a strong indication of the quality of the portfolio's assets and the strength of Arena's tenant relationships. The portfolio management team's focus continues to be on de-risking future income."

One property was acquired during FY16, and two vacant properties were sold for $1.15 million.

Portfolio valuation uplift of $51.1 million

In accordance with Arena's valuation policy, 39% of the portfolio was independently valued during the 2016 financial year, with assets not valued independently subject to a Directors' valuation. At 30 June 2016, the portfolio recorded a revaluation uplift of $51.1 million, an increase of 11.5%.

	Number of properties	Valuation ($m)	Movement ($m)	Weighted average passing yield (%)
Childcare Portfolio	196	413.2	40.5	7.31
Healthcare Portfolio	7	78.2	10.6	7.25
Total portfolio	**203**	**491.4**	**51.1**	**7.30**

This increase was the result of a combination of rental income growth, proactive portfolio management and a firming in passing yields, with strong transaction evidence in the direct market contributing to the weighted average passing yield on the portfolio firming 70 basis points over the course of the year to 7.3% at 30 June 2016.

Completed developments deliver growth and enhance portfolio quality

Four development projects were completed in FY16 for a total cost of $19.1 million. The projects were completed at an initial yield on total cost of 8.7%, and were independently valued at 30 June 2016 at $26.6 million, delivering a development margin of $7.5 million.

Location	Total cost* ($m)	Initial yield on cost (%)	Yield on completion (%)	Lease term (years)	Lease start date
Murwillumbah, NSW	2.4	9.5	7.0	15	Nov-15
Kawana, QLD	3.2	9.0	7.0	15	Nov-15
Clifton Hill, VIC	6.6	8.5	6.0	20	Feb-16
Richmond, VIC	6.9	8.5	6.0	20	Apr-16
Total	19.1	8.7^	6.3^	17.5^	

** Total cost includes acquisition costs, holding costs and construction costs less tenant contributions.*
^ Weighted average.

Mr de Vos said "This significant uplift in valuation of these completed projects reflects the quality of the developments, their strategically selected locations and the strength of the tenant covenants we have secured. Our growing origination and development management capability has enabled us to access attractive development margins in a risk controlled environment."

Development pipeline on track

The development pipeline includes 14 projects, all with lease pre-commitments in place to established operators. The projects have a total forecast cost of $52 million, of which $22.3 million has been invested to date.

Completion timing	Number of projects	Forecast total project cost ($m)
FY17	8	24
FY18	6	28

The FY17 projects include five of the six early learning centres being developed in conjunction with the State of Victoria's PPP primary school development program. These centres, five of which will be completed for the commencement of the 2017 school year, are the first of their kind in Victoria, and provide an integrated solution to early learning and primary schooling in high population areas of Melbourne and its surrounds.

All of the projects in the pipeline are due for completion in FY17 and FY18, and together are forecast to deliver an average yield on cost of 8%.

CAPITAL MANAGEMENT HIGHLIGHTS (as at 30 June 2016)

- Gearing 26.8%, down from 29.1% at 30 June 2015
- Borrowing facility renegotiated, average facility term extended to 3.5 years
- Weighted average cost of debt 3.85% pa, down from 4.3% pa at 30 June 2015
- 72% of borrowings hedged at weighted average hedge term of 4.0 years and an average swap rate of 2.48%

Borrowing facility renegotiated on favourable terms

The $175 million borrowing facility was renegotiated in December 2015, adding a third lender to the syndicate, extending the facility average duration to 3.5 years at 30 June 2016, and reducing the weighted average cost of debt to 3.85% pa at 30 June 2016.

Capacity to fund growth

At 30 June 2016, gearing has decreased to 26.8%, following the positive impact of revaluations and the $7 million increase in borrowings to fund development projects. A further $37 million is available within the existing debt facility to fund the development pipeline, and the DRP remains open, after raising $6.2 million in FY16.

FY17 distribution guidance of 11.7 cents per security[5]

For FY17, the portfolio's structured rental growth, with its limited exposure to lowered inflation expectations, coupled with the progress on the development pipeline, underpin our distribution guidance of 11.7 cents per security[5]. This reflects forecast distribution growth of 7.4% over FY16.

– ENDS –

MANAGEMENT CONFERENCE CALL PRESENTATION

Arena will be hosting a conference call at 11.00am today (Thursday 25 August 2016) to present the annual results. A copy of the annual results presentation has also been lodged with the ASX and on Arena's website (www.arena.com.au). To listen to the management presentation, please register at http://www.arena.com.au/investor-communications/fy16-annual-results-teleconference

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About Arena REIT

Arena REIT is an ASX300 listed property group that owns, manages and develops specialised real estate assets across Australia. Our current portfolio of social infrastructure assets is 100% leased to a diversified tenant base in the growing childcare and healthcare sectors. To find out more, please visit www.arena.com.au

[5] *Estimated on a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions, and tenants comply with their lease obligations.*

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