Arena REIT (ASX code: ARF)

Stapled Group comprising
Arena REIT No.1 ARSN 106 891 641
Arena REIT No. 2 ARSN 101 067 878

ASX Announcement
27 February 2014

HALF YEAR RESULTS FOR PERIOD ENDED 31 DECEMBER 2013
Improved earnings and diversified portfolio risk

Arena Investment Management Limited (**Arena**), as responsible entity of Arena REIT (**ARF**), today announced ARF's half yearly results for the period ended 31 December 2013.

KEY HIGHLIGHTS

1 Strong underlying income and earnings growth

- Average rent increase on reviews during the period of 2.8%.
- Distributable earnings per security of 4.13 cents per Stapled Security (**Security**), up 7.6% on prior comparative period (**pcp**).
- FY14 distribution guidance upgraded from 8.65 to 8.75 cents per Security (on a status quo basis), reflecting a 6.7% increase from the FY14 IPO distribution forecast (June 2013); this equates to an annualised distribution rate of 9.3 cents per Security.

2 Valuation and NTA growth

- Revaluation gain on carrying value of investment properties of $4.96 million, representing an average increase of 3.6% on those properties revalued.
- Net tangible assets increased to $1.03 per Security.

3 Execution of growth strategy and enhanced diversification and portfolio metrics

- Acquisition of 15 childcare centres and 3 pre-leased on completion development sites.
- Successful stapling of ARF to Sydney Healthcare Trust (addition of 6 medical centres)
- Improved tenant diversification with addition of Primary Health Care (17.3%), Affinity Education Group (8.1%) and G8 Education (2.7%) (by value).
- 99.1% occupancy (by value) and 8.7 year weighted average lease expiry (WALE).

Arena's Chairman Mr David Ross said "The Board is very pleased with the progress the management team has made with ARF in the first six months since ASX listing with active management of the existing childcare centre portfolio, the acquisition of childcare centre assets and implementing ARF's broadened investment strategy through the addition of 6 medical centres leased on a long term basis to Primary Health Care. This activity is reflected in ARF's strengthened portfolio metrics and underlying earnings growth."

Arena Investment Management Limited ACN 077 235 879
Responsible entity of Arena REIT stapled group (ASX:ARF)
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Arena

FINANCIAL SUMMARY

Mr James Goodwin, Joint Managing Director, commented that "ARF is tracking well ahead of its IPO distribution forecasts due to significant new investments, the majority of which were made late in the reporting period and which will have their full impact on earnings in the second half of this financial year. Reflecting the Board's confidence in the performance of ARF, we are pleased to announce that our FY14 distribution guidance has been upgraded to 8.75 cents per Security (6.7% higher than IPO forecast) on a status quo basis. ARF is providing an attractive income return of over 8% to its investors."

Income Statement Half Year Ending	December 2013 $'000	December 2012 $'000	% Change
Lease rental income	11,370	10,685	+6.4%
Other income	30	379	-92.1%
Total operating income	11,400	11,064	+3.0%
Operating expenses	(1,851)	(2,300)	-19.5%
Finance costs	(1,016)	(3,686)	-72.4%
Distributable income	**8,533**	**5,078**	**+68.0**
Non-distributable items	4,110	1,677	+145.1%
Statutory net profit	12,643	6,755	+87.2%
Distributable Income per Security	**4.13 cents**	**3.84 cents**	**+7.6%**

Balance Sheet metrics	31 December 2013	30 June 2013	% Change
Investment Property	$325.1m	$233.8m	+39.1%
Total Assets	$331.8m	$241.3m	+37.5%
Drawn borrowings	$82.3m	$25.0m	+229.2%
Net Assets	$216.9m	$210.1m	+3.2%
Gearing[1,2]	24.8%	10.4%	+14.4%
NTA per Security	$1.03	$1.02	+1%

1. Gearing calculated as Borrowings / Total Assets.
2. Gearing increased to 32.4% in January 2014 on payment of the Sydney Health Care Trust stapling unit redemption.

PORTFOLIO PERFORMANCE

The key portfolio highlights for the period include:

- 27 properties independently revalued, achieving a 4.95% average increase ($1.67 million) on book value. The total revaluation movement since the last independent valuation on these properties was $2.64 million representing an 8.1% increase over an approximate 2 year period;
- 77 properties internally revalued, achieving a 3.1% portfolio increase ($3.29 million) on book value based primarily on underlying rental increases. These revaluations represent a 4.7% increase on the last independent valuations;
- Weighted average lease expiry increased to 8.7 years; and
- Average passing rental growth of 2.8%.

Key property portfolio metrics as at 31 December 2013:

Key metric	Childcare	Medical centres	Total/Average
Number of properties	193 (+16)	6 (+6)	199 (+22)
Property value	$269.8m (+15.4%)	$55.3m (+100%)	$325.1m (+39.1%)
Average passing yield	9.15%	8.86%	9.12%
Weighted average lease expiry	8.8 years (+0.5)	8.5 years	8.7 years
Annualised rent review increase %	2.69%	2.92%	2.77%

Note: Figures in brackets represent the movement over the 6 month reporting period.
Passing yield excludes vacant properties.

Mr Bryce Mitchelson, Joint Managing Director, added "ARF's underlying property portfolio continued to perform steadily during the period with both good rental and capital growth achieved, being further enhanced by an accretive development pipeline. Consolidation activity within the childcare sector has continued with several notable transactions occurring over the past 6 months with the larger "for-profit" operators. During the period, the largest "for profit" operator, the ASX listed G8 Education, acquired Nurture One and subsequently became a tenant of ARF. We are seeing the sophistication of operators improve significantly which can only be positive for the efficient and effective provision of long day care services in Australia."

ACQUISTIONS AND DIVESTMENTS

- **Childcare centres (15)** – The majority of the properties acquired during the reporting period related to the Affinity Education Group transaction announced on 6 November 2013. In addition, 1 further leased childcare centre was acquired in July 2013. The aggregate purchase price of these acquisitions was $26.72 million with an average passing yield of 9.04% on purchase price.
- **Medical centres (6)** – large scale medical centres leased to Primary Health Care on a long term basis were added to the investment property portfolio via the stapling proposal approved by ARF investors in December 2013. These properties are presently valued on a passing yield of 8.86% on book value.
- **Development sites (3)** – Three further development sites were acquired during the period, all with leasing pre-commitments and construction to be undertaken in 2014. In addition to the 3 new sites acquired during the period, work is also in progress on 2 existing sites and a second centre on an existing property, all pre-leased. It is expected that the majority of these projects will be completed later in 2014. The total cost of these projects is estimated at $11.8 million, with $8 million to complete these projects. The average passing yield on total cost is estimated at 9.4% (including land value). Assuming these developments are fully debt funded, gearing would be 34%.
- **Disposals (2)** – Two vacant properties (Tallebudgera, Innisfail leasehold) were sold during the period at book value for $1.46 million. No properties are presently held for sale, although two vacant sites (book value $0.49 million) remain available for sale, lease or future development.

CAPITAL MANAGEMENT

Arena has undertaken several capital management initiatives:

- **Debt facilities** – As previously advised, in June 2013 ARF negotiated improved facility terms taking into account the proposed ASX listing and reduced gearing. The current facility has a limit of $140 million with $22 million remaining unallocated and available to fund new investments. The current facility matures in June 2016. Arena is currently exploring opportunities to extend ARF's debt maturity profile.
- **Interest rate management** – Late in the reporting period, ARF's gearing increased to fund new investments. ARF has interest rate derivatives to fix the interest rate on $75 million of debt (70% coverage as at 2 January 2014) for a weighted average period of approximately 3 years.

OUTLOOK

Arena will continue to actively seek opportunities to improve the performance of the existing portfolio by working with its existing tenants and monitoring the underlying performance of each centre and also consider new investment opportunities to further diversify its portfolio in accordance with ARF's investment strategy.

The current gearing ratio of 32.4% remains below its target range of 35% to 45% with $22 million unallocated funds for new investments.

Arena also announces that it has upgraded ARF's FY14 annual distribution guidance of 8.65 cents (advised in November 2013) to 8.75 cents per Security on a status quo basis. This equates to an annual distribution rate of 9.3 cents per Security.

- ENDS -

About Arena REIT

Arena REIT is an ASX listed stapled group with a strategy to invest in sectors such as childcare, education, healthcare and government tenanted facilities leased on a long term basis. ARF owns 186 childcare centres, 7 development sites and 6 large scale medical centres situated throughout Australia with an aggregate value of over $330 million. Distributions are paid to investors on a quarterly basis.

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Legal notice

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