ARENA REIT (ASX CODE: ARF)

ASX ANNOUNCEMENT

12 FEBRUARY 2021

HY2021 RESULTS

Delivering positive portfolio, investment and community outcomes

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of $24.7 million, up 15% on the prior corresponding period (pcp)
- Statutory net profit of $61.1 million, up 45% on pcp
- Earnings per security (EPS) of 7.26 cents, up 1% on pcp
- Distributions per security (DPS) of 7.35 cents, up 3% on pcp
- Total Assets of $1,062.2 million, up 5% on 30 June 2020
- Net Asset Value (NAV) per security of $2.32, up 5% on 30 June 2020

Ongoing investment continues to deliver distribution growth

Arena REIT (Arena) has today announced a net operating profit for the half-year ended 31 December 2020 of $24.7 million, up 15% on the pcp.

Key contributors to the result were income growth from contracted annual rent reviews, acquisitions and development projects completed in FY20 and HY21.

This result equated to EPS of 7.26 cents, up 1% on the pcp. Arena has paid DPS of 7.35 cents for the half-year, an increase of 3% on the pcp and re-affirms full year distribution guidance of 14.8[1] cents, an increase of 5.7% on FY20.

Statutory net profit for the half-year was $61.1 million. This was an increase of 45% on pcp predominantly due to higher operating profit, property valuation uplift, profits realised on the sale of divested properties and the positive revaluation of interest rate hedges.

Arena's total assets increased by 5% to $1,062.2 million as a result of acquisitions, development capital expenditure and positive portfolio revaluation. The valuation uplift contributed to a 5% increase in NAV of 10 cents per security to $2.32 at 31 December 2020.

[1] FY21 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals, all developments in progress are completed in line with forecast assumptions, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.

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)

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Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said "I would like to acknowledge the efforts and achievements of our tenant partners and the Arena team over first half FY21 in delivering positive portfolio, investment and community outcomes. In an improved operating environment for our tenant partners, Arena's portfolio has maintained 100% occupancy and collected 100% of contracted rent to 31 January 2021."

PORTFOLIO HIGHLIGHTS

- 100% portfolio occupancy maintained
- 100% of contracted rent has been receipted for the period 1 July 2020 to 31 January 2021
- Weighted average lease expiry (WALE) increased to 14.7 years
- Portfolio valuation uplift of $35.3 million
- Portfolio weighted average passing yield 6.13%
- Continued to rollout the installation of renewable energy systems
- Seven operating early learning centres (ELCs) and five ELC development sites acquired[2]
- Nine development projects completed[3]
- Three ELC properties divested at an average premium of 15.3% to book value
- Development pipeline of 13 ELC projects at a forecast total cost of $74 million[2]
- Average like-for-like rent review increase of 2.6%[4]
- Portfolio contributes to increased levels of community access, inclusion and wellbeing

COVID-19 update

All of Arena's properties remain open and in operation. All tenant partners remain compliant with COVID-19 related rent relief agreements and less than $20k of new rent relief was agreed in HY21[5].

Existing long WALE further increased to 14.7 years

Portfolio occupancy was maintained at 100% and the portfolio's WALE increased to 14.7 years following the acquisition of seven operating ELC properties with an initial weighted average lease term of 27.3 years and completion of nine ELC development projects with an initial weighted average lease term of 20.5 years[3].

Acquisitions and development project completions in HY21

Seven operating ELC properties were acquired for $40.4 million at an average net initial yield on total cost of 6.1%, with an initial weighted average lease expiry of 27.3 years. Nine ELC development project were completed[3] for $45.8 million at a net initial yield on cost of 6.7% with an initial weighted average lease expiry of 20.5 years, and five new ELC development projects were acquired[2].

[2] Includes three ELC projects that were conditionally contracted prior to 31 December 2020.
[3] Includes two ELC developments that reached practical completion post 31 December 2020.
[4] Excludes 25 unresolved market rent reviews from FY20 and 11 from HY21 which are all subject to a 0% collar and 7.5% cap.
[5] Under the National Cabinet Mandatory Code of Conduct landlords are obliged to provide eligible tenants rental relief in proportion to the reduction in trade resulting from COVID-19.

Asset recycling underpins ongoing quality of portfolio

Three ELC properties were divested for $7.1 million at an average premium of 15.3% to book value.

Portfolio valuation uplift of $35.3 million

At 31 December 2020, Arena's property portfolio comprised 234 ELC properties and development sites (86% of portfolio value) and 11 healthcare properties (14% of portfolio value). All 245 properties were revalued during HY21, with 41 properties independently valued and the remaining 204 at directors' valuation. A valuation uplift of $35.3 million was recorded, an increase of 3.9% from FY20.

The portfolio's weighted average passing yield firmed 9 basis points to 6.13%. The weighted average passing yield on the ELC portfolio firmed by 8 basis points and healthcare portfolio firmed by 13 basis points.

	No. of properties	31 Dec 20 Valuation ($m)	Valuation movement (since 30 June 2020)		Weighted average passing yield	
			$m	%	31-Dec-20 %	Change bps
ELC portfolio	234	876.4	+ 31.6	+4.1	6.16	(8)
Healthcare portfolio	11	140.8	+ 3.7	+2.7	5.99	(13)
Total Portfolio	**245**	**1,017.2**	**+35.3**	**+3.9**	**6.13**	**(9)**

Average like-for-like rent review increase of 2.6%[6]

Annual rent reviews have been completed for 55.4% of portfolio income in HY21, with an average like-for-like rent increase of 2.6% over passing rent achieved. 25 market rent reviews from FY20 (representing approximately 8% of FY20 income) and 11 from HY21 remain unresolved as at 31 December 2020; market rent review outcomes are backdated to the original review date.

Working in collaboration to deliver beneficial and sustainable outcomes

Positive social outcomes are central to Arena's core values; our property portfolio contributes to increased levels of community access, inclusion and wellbeing. Arena issued its inaugural Sustainability Report for FY2020[7] outlining our sustainability initiatives, strategies and performance with regard to:

- Governance and risk;
- Human capital management, purpose and culture;
- Tenant engagement and retention;
- Renewable energy; and
- Advancing progress on the United Nations Sustainability Development Goals.

Arena intends to enhance our disclosures where possible, and has identified sustainability priorities over the short and medium term for ongoing action and future reporting.

[6] Excludes 25 unresolved market rent reviews from FY20 and 11 from HY21 which are all subject to a 0% collar and 7.5% cap.
[7] https://www.arena.com.au/arena/media/docs/FA-Arena-SR-2020_WEB.pdf.

ELC sector update

Strong macroeconomic drivers continue to support the Australian ELC sector. Demand for services and record female workforce participation rate have been driving increased long day care participation rates over the medium to long term[8,9].

Government support was improved by the introduction of the Childcare Subsidy in July 2018 and strongly reinforced through various COVID-19 related funding commitments[10] which is designed to:

- Support the economic recovery from COVID-19 in the short term; and
- Improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term[11].

Arena's healthcare portfolio continues to perform well

Strong macroeconomic factors continue to support Australian healthcare accommodation. There is strong ongoing investor interest in healthcare property and increasing interest in social infrastructure property more generally.

Development pipeline of $74 million[12]

The development pipeline now comprises 13 ELC projects with a forecast total cost of $74 million; $30 million of forecast capital expenditure remains outstanding. The weighted average initial yield on forecast total cost on completion of the development pipeline is 6.6%. Five of the projects are due for completion in the second half of FY21, with the balance due in FY22.

CAPITAL MANAGEMENT HIGHLIGHTS

- Gearing[13] 19.9%, increased from 14.8% at 30 June 2020
- Weighted average cost of debt decreased to 2.9% p.a.
- 70% of borrowings hedged for weighted average term of 4.9 years at 1.86% p.a.
- Weighted average facility term of 3 years with no expiry until March 2023

Relatively low risk funding profile maintained

Arena's weighted average facility term is 3 years with no near term expiry and the weighted average cost of debt fell 25 basis points to 2.9% p.a. as at 31 December 2020. Interest rate hedging decreased during the period with 70% of drawn debt hedged at 31 December 2020 compared with 80% at 30 June 2020. The weighted average hedge term was 4.9 years at an average rate of 1.86% compared with 4.7 years at 2.20% as at 30 June 2020.

Arena raised $25 million of new equity capital via SPP in July 2020 and a further $6 million during the half-year via the DRP, which remains open.

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[8] ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).
[9] Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.
[10] https://www.dese.gov.au/covid-19/childcare/; https://ministers.dese.gov.au/.
[11] https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf.
[12] Includes three ELC projects that were conditionally contracted prior to 31 December 2020.
[13] Gearing calculated as ratio of net borrowing over total assets less cash.

Capacity to fund new opportunities

At 31 December 2020, Arena's gearing[14] was 19.9%, increased from 14.8% at 30 June 2020 with undrawn debt capacity of $95 million to fund the balance of the development pipeline of $30 million, and future growth opportunities.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "We continue to operate well within our covenant requirements with capacity to deploy capital into the development pipeline and additional investment opportunities for growth."

OUTLOOK

Arena remains well positioned for future opportunities and challenges

Arena reaffirms FY21 DPS guidance of 14.8[15] cents per security reflecting growth of 5.7% over FY20.

Mr de Vos said "Early learning and healthcare services are integral to economic recovery and improving Australian community outcomes. These important themes underpin Arena's portfolio value proposition and investment objective of delivering an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term."

Teleconference

An investor teleconference will be held to provide an overview of the operating activities and financial results for the half-year to 31 December 2020. Details of the teleconference are as follows:

Title: Arena REIT HY2021 Results

Date: Friday 12 February 2021

Time: 9.30am AEDT

Registration: Investors wishing to participate in the teleconference must register click here to register. Upon registration, investors will be emailed the teleconference dial-in number, the conference passcode and a unique access PIN for the call; the information will also be emailed as a calendar invite.

A recording of the investor teleconference will also be made available on the Arena website.

This announcement is authorised to be given to the ASX by Gareth Winter, Company Secretary.

[14] Gearing calculated as ratio of net borrowing over total assets less cash.
[15] FY21 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals, all developments in progress are completed in line with forecast assumptions, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.

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About Arena REIT

Arena REIT is an ASX300 listed property group that owns, manages and develops 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.

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