Arena REIT
ASX Code: ARF

ASX Announcement
29 October 2015

Arena REIT – Delivering Value for Investors

The attached material is being used for investor presentations prior to the Arena REIT AGM, scheduled for 19 November 2015.

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About Arena REIT

Arena REIT (ARF) is a leading Australian property investor and manager 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.](http://www.arena.com.au)

ARF.ASX

Arena REIT

Delivering value for investors

October 2015

Arena

Agenda

Internalised management structure

Delivering predictable earnings with growth

Potential NTA upside

Strong investment performance

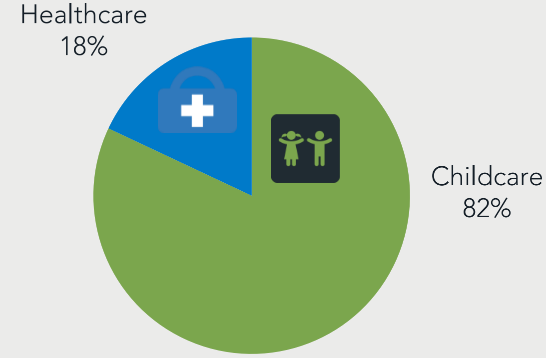
1 Focused strategy

Owning long leased assets supported by childcare and healthcare sectors

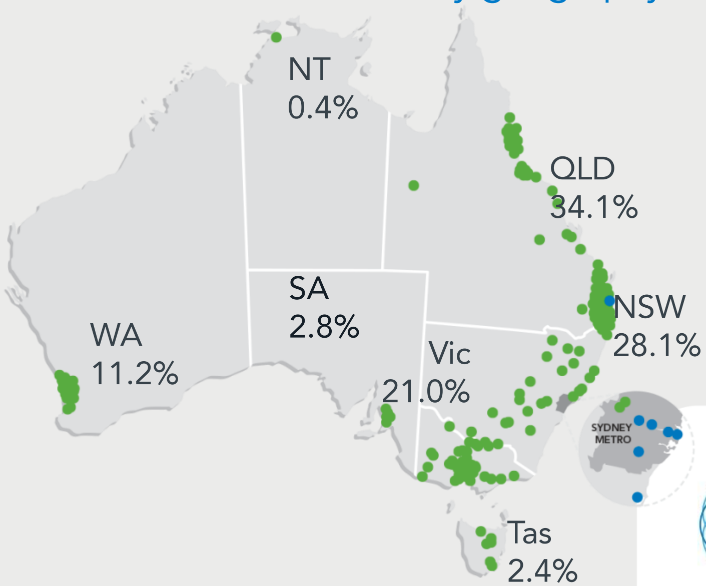
As at 30 June 2015	Medical centres	Childcare centres	Development sites	Total
No of properties	7	179	11	197
Value (million)	$67	$323	$30	$420
Like-for-like rental growth*	2.7%	3.5%	–	3.4%
Average passing yield	8.2%	8.0%	–	8.0%
Occupancy (by number)	100%	99%	–	99%
WALE (by income) years	7.5	9.3	–	8.9

* For 12 months to financial year end.

Sector diversification (by income)



Sector diversification (by geography)



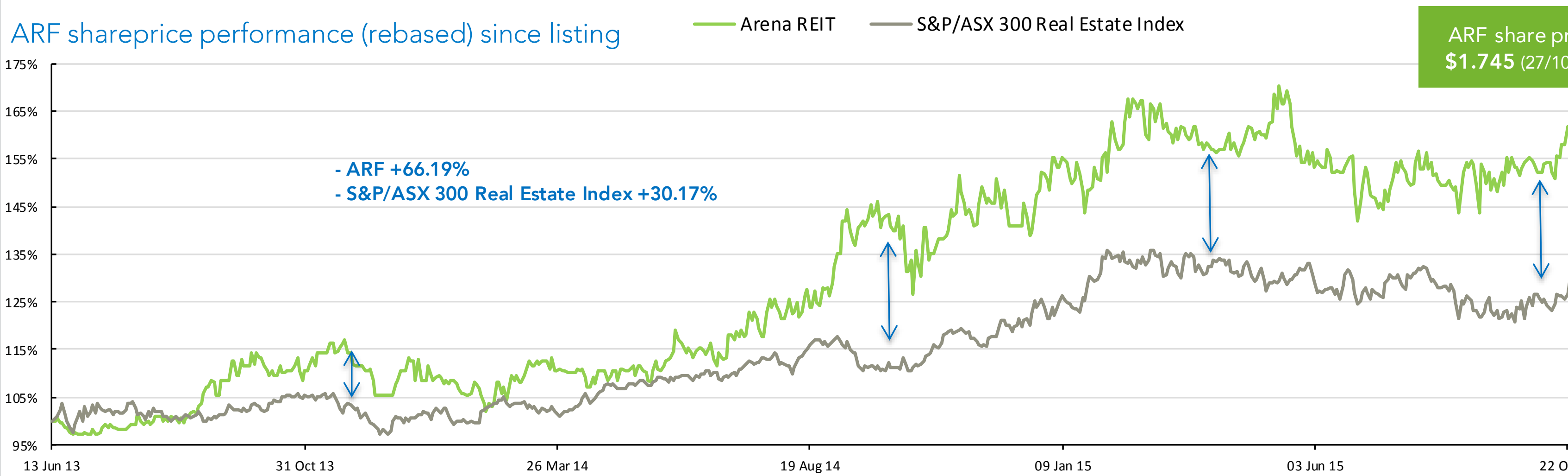
Strong track record

Outperformance since IPO

Performance metric	FY13	FY14	FY15	FY16 (guidance)
Operating Profit per security	8.20¢	8.85¢	10.20¢	
Distributions per security	8.00¢	8.75¢ (+9.4%)	10.00¢ (+14.3%)	10.70¢ (+7.0%)
Net asset value per security	$1.02	$1.13	$1.33	
ASX price	$1.02^	$1.20	$1.54	
Return on equity	n/a	20.0%	22.0%	
Annual total shareholder return (TSR)	n/a	26.7%	36.3%	
Annual TSR of ASX-300 A-REITs Index	n/a	11.1%	20.2%	

ARF shareprice performance (rebased) since listing

ARF share price **$1.745** (27/10/15)



^ ARF listed on ASX on 13 June 2013.

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Strong underlying sector demand

Favourable childcare and healthcare macro fundamentals

Childcare

- Demand for long day care dependent on several factors (eg: cost, availability, female workforce participation rate and availability of alternative forms of care).
- Strong Government support for sector (>60% of fees subsidised nationally).
- +$3.5b proposed boost in federal funding via Government's 'Jobs for Families child care package', making childcare more affordable.
- 59% of children aged <5 years in childcare (40.7% in formal childcare). Average attendance period for children increasing (average 27.6 hrs/week in 2014).
- Shortfall of 57,000 places in formal childcare reported by ABS in 2015.

Healthcare

- Ageing and growing population driving demand for medical services. 10% of world's population will be aged 65+ by 2017.
- Australia spent 6.6% of national GDP on healthcare in 2014. Healthcare is a non-discretionary spending item.
- Almost 50% of Australians hold private health insurance hospital cover.
- Non-age related chronic disease (e.g. diabetes and obesity) also on the rise. Forecast to contribute to over 80% of Australia's disease burden by 2020.
- Growing demand for healthcare services = increased demand for healthcare property infrastructure.

Sources: Childhood Education and Care, Australia, June 2014 ABS: 44020DO001_201406. Australia's Health 2014 report, Australian Institute of Health and Welfare, 2014. ABS, Australian Demographic Statistics. NSW Department of Health. Primary Healthcare Limited Annual Report 2015.

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Quality tenant covenants

Delivering predictable earnings

Tenant		Portfolio %^	Covenant
	Goodstart Early Learning	46%	Australia's largest childcare operator, Goodstart operates over 640 centres around the country. In FY15 Goodstart reported $270 m in gross assets, an underlying surplus of $48m and no external debt (foundation debt including all bank debt was repaid 18 months ahead of schedule last year). In FY15, Goodstart invested over $16m upgrading their centre facilities.[1]
	Primary Healthcare Limited (ASX code: PRY)	18%	Primary Healthcare is a leading provider of healthcare services with a market capitalisation of $2 billion, operating 71 medical centres across Australia. Their large-scale, bulk-billing model facilitates more than 8 million GP visits per year. Primary is also a large pathology provider in Australia (with around one third market share and the largest footprint of collection centres and laboratories nationally.[2]
	Affinity Education (ASX code: AFJ) / Anchorage	17%	ASX listed childcare operator with a market cap of $210m and operating 129 childcare centres across Australia (AFJ is expected to be delisted in late 2015).[3]
	G8 Education (ASX code: GEM)	4%	Largest ASX listed childcare operator with a market cap of $1.1billion, operating over 450 centres.
	Other	15%	Other, generally smaller private operators.

^ Value by income.
1. Goodstart Early Learning Annual Report 2015.
2. Primary Healthcare Limited website.
3. Affinity Education Group website.

Typical lease structured for predictable income with growth

Typical Arena REIT lease

Childcare centre assets

- Relatively long lease terms on commencement (typically 15 years) with two options to extend for 5 years.
- 5 years' notice period to extend leases for 5 years or terminate the lease.
- Market rent reviews typically at the end of the initial 10 years and at the commencement of five year lease extension options: capped at 7.5% increase (rent cannot go down).
- Annual rental increases typically higher of CPI or a minimum 2.5% (beneficial in current low inflationary environment).
- Triple net leases requiring the tenant to undertake repairs and maintenance including of a capital nature.

Medical centre assets

- Relatively long lease terms on commencement (typically 10 years) with options to extend for 5 years.
- 18 months' notice period to extend leases for 5 years or terminate the lease.
- Market rent reviews at the commencement of 5 year lease extension options (rent cannot go down).
- Annual rental increases typically 3% or CPI.
- Triple net leases, requiring the tenant to undertake all repairs and maintenance.

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Benefits of internalised management structure

Enhanced alignment and direct accountability to investors

Arena Board (left to right)
Executive director: Bryce Mitchelson (MD) ; Independent non-executive directors: Dennis Wildenburg, David Ross (Chairman), Simon Parsons.

- Total current management costs and MER at 0.6% of total assets, lower than externally managed competitors.
- No fund or asset management fees charged on:
  - valuation increases (for no additional income) and therefore no dilution of earnings growth;
  - new investments and developments; and therefore no diluted incremental earnings and growth to investors.
- No performance, acquisition, disposition, leasing, development or debt arrangement fees paid to the manager.

- ARF management performance incentives:
  - Short term incentive (STI) and long term incentive (LTI) measures are based directly on ARF performance;
  - LTI is rewarded through ARF performance rights.
- All directors are invested in ARF securities.

Management structure provides optimal platform to maximise long term shareholder returns

7 What is driving earnings growth?

FY16 distribution guidance of 10.7¢[1] (7% annual increase)

Contracted rental growth

- FY15 3.4% like-for-like annual rent growth (average market review increase of 6%).
- Average rent per childcare place is $1,685 (compared to new rents agreed on developments completed in FY15 at an average of $2,500).
- Minimum 2.5% annual rent increase on childcare centres with no market rent review in a particular year, and CPI or 3% increases on medical centres with no market rent review in a particular year.
- Childcare tenant affordability – i.e. Low rent to gross revenue, and improving centre profitability.

Earnings accretive childcare development pipeline

- 6 completed childcare developments and 1 centre extension costing $17m yielding 9.4% in FY15.
- Current 11 sites with 8 projects in development with a range of tenants costing approximately $45m (approximately 10% of portfolio) expected to yield 8.4% and be completed in FY16/17.
- After debt funding costs of currently 4.3%, provides approximately 4% annualised incremental income to earnings growth from completion.

Minimal property outgoings and capex

- Favourable triple net lease structure in childcare centres improves long term returns (i.e. tenant responsible for all repairs and maintenance and capex).

[1] Estimated 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.

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What is driving earnings growth?

continued

Internalised management structure

- Enhanced alignment with investors, lower management cost ratio and no fee leakage.
- Provides operating leverage and enhanced earnings growth potential.

Long leases with high tenant retention

- No significant lease expiries for 5 years, with lease maturity profile of 8.9 years.
- 45 leases extended (100% options exercised in FY15).

Balance sheet capacity

- 29% balance sheet gearing.
- Debt funding capacity of $44m to fund development pipeline/new investments.
- Competitive borrowing cost of approximately 4.3% which supports accretive earnings growth.

Market evidence suggests NTA upside from asset revaluations

NAV $1.33 (up 18% in FY15)

Valuations as at 30 June 2015	Number of assets	Value ($m)	Passing Yield
Childcare independent valuations	18	30	7.9%
• Director valuations - childcare	172	323	8.0%
• Director valuations - healthcare	7	67	8.2%
Total Director valuations	179	390	8.0%
Portfolio value	**197**	**420**	**8.0%**

Arena childcare centre sales evidence
(Average passing yields by year)

State	June 2012	June 2013	June 2014	June 2015
QLD	9.2%	9.6%	8.7%	7.6%
NSW	8.6%	8.4%	7.6%	6.5%
VIC	8.1%	7.8%	7.1%	6.4%
Transactions	**31**	**41**	**63**	**36**

Source: Sales evidence collated by Arena

- Sales evidence indicates scope for further revaluation and NTA upside in FY16.
- Data shows FY15 childcare centre sales yields were in the range of approximately 6.5% to 7.5%
- Scope for further yield compression in ARF childcare centres in the short term.

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Upcoming AGM – 19 November, Melbourne

Voting resolutions

- Arena REIT will hold its AGM on 19 November 2015 (10.00 am AEDT) at the Sofitel Melbourne.
- Proxy / online voting closes 10.00am (AEDT) 17 November 2015.
- The Resolutions to be voted on are as follows:

Resolution		Voting threshold
1*	Non-binding advisory vote on the Remuneration Report	n/a
2	Appointment of auditor	>50%
3	Re-election of Mr Dennis Wildenburg as director of the Company	>50%
4*	Approval of February Placement	>50%
5*	Grant of performance rights to Mr Bryce Mitchelson	>50%
6*	Grant of performance rights to Mr Gareth Winter	>50%

* This resolution is subject to voting exclusions - Please read the voting exclusion statement included in the Arena REIT Notice of Annual General Meeting and Explanatory Memorandum

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