

ASX ANNOUNCEMENT

19 JUNE 2024

MARKET UPDATE

Arena REIT's (Arena's) portfolio valuation program is expected to result in a net nil revaluation for the six month period ending 30 June 2024, which represents no material change in portfolio valuation or Net Asset Value (NAV) per security from 31 December 2023.

A total of 59 early learning centre (ELC) assets and six healthcare assets were independently valued as at 30 June 2024, with the remaining ELC and healthcare assets and ELC development projects subject to Directors' valuation. These portfolio revaluations remain subject to review by Arena's external auditors.

A summary of the portfolio valuation change is detailed below:

| | Valuation movement (since 31-Dec-2023) | | Weighted average passing yield 30-Jun-2024 | |
|------------------------|---|-------|---|----------------|
| | | | | Variance |
| ELC portfolio | +\$3m | +0.2% | 5.34% | +10 bps |
| Healthcare portfolio | -\$3m | -2.2% | 5.65% | +15 bps |
| Total portfolio | - | - | 5.37% | +11 bps |

The valuation effect of an expansion in capitalisation rates has been offset by increases in passing and market rents resulting in an overall neutral revaluation outcome.

Arena's property portfolio has a Weighted Average Lease Expiry of 18.4 years and is 99.7% occupied as at 30 June 2024.

ELC sector and portfolio update

Strong macroeconomic drivers continue to support the Australian childcare sector. Rising female workforce participation continues to drive demand for childcare services and long day care participation rates over the medium to long term^{1,2}. From July 2023 Australian families have benefitted from improved affordability measures³ introduced by the Federal Government, including:

- increasing the maximum Childcare Subsidy (CCS) rate to 90% for the first child in care;
- retaining the increased CCS rate at a maximum of 95% for subsequent children in care; and
- increasing the CCS for every family earning less than \$530,000 in annual household income with one child in care.

¹ ABS Labour Force status by Relationship in household, Sex, State and Territory.

² Australian Government Department of Education Early Childhood data and reports - quarterly reports 2011-2023.

³ Labor's Plan for Cheaper Child Care | Policies | Australian Labor Party (alp.org.au)



These measures have been designed to improve lifelong learning prospects of Australian children, increase workforce participation, improve gender equality, including women’s financial security, and stimulate economic activity over the medium to long term⁴.

Arena’s ELC tenant partners reported the following underlying business operating data as at 31 March 2024⁵:

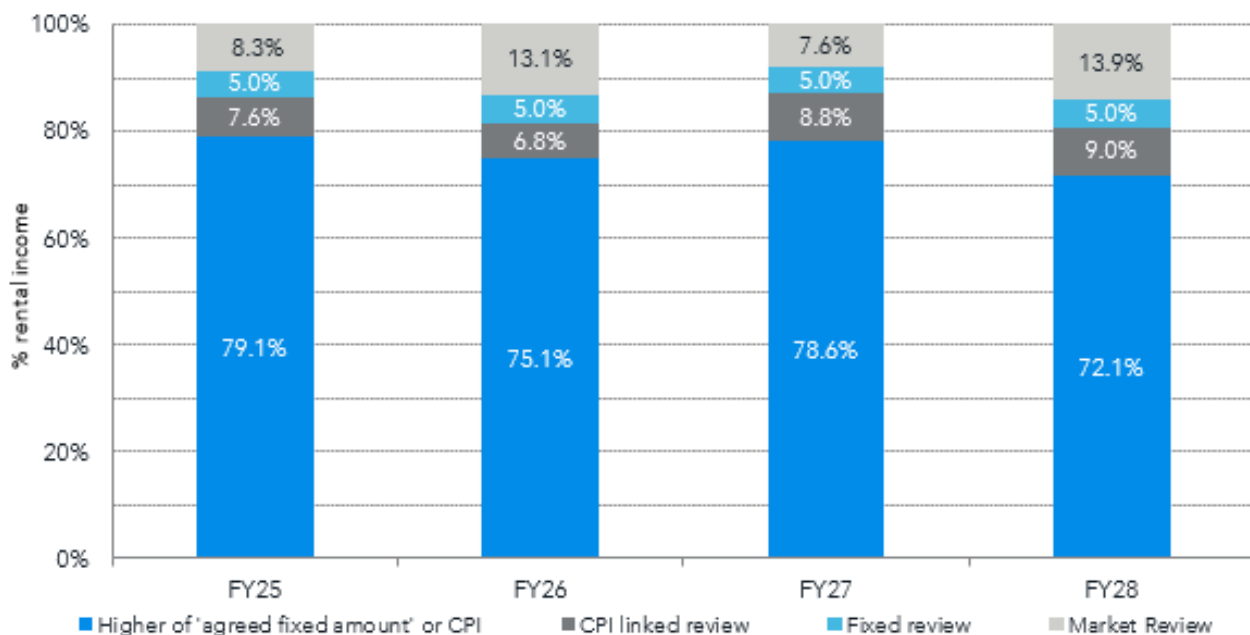
- Average daily fee of \$141.38, +0.62% from September 2023 and +9.11% from March 2023;
- Like-for-like operator occupancy is in line with March 2023 which was higher than any corresponding reporting period over the prior seven years; and
- Net rent to revenue ratio of 10.3%.

FY2024 rent reviews

Rent reviews during the period resulted in an average like-for-like FY2024 rent increase of 4.9%.

Annual rent escalation profile well placed for inflation uncertainty

Arena’s rent review profile remains well placed with annual lease rent reviews predominantly subject to an increase of the higher of an agreed fixed increase or CPI.



Active portfolio growth and asset recycling

Arena has agreed to acquire one operating ELC, at a total cost of approximately \$4.3m with a net yield on total cost of 6.5% with an initial lease term of 20 years, and divested one ELC property at book value during FY2024.

⁴ [Cheaper childcare: A practical plan to boost female workforce participation \(grattan.edu.au\)](https://grattan.edu.au)

⁵ Arena analysis based on operating data provided by Arena’s tenant partners.

ELC development project completions during FY2024

Arena anticipates completing eight ELC projects over FY2024 for a total investment of \$59 million, on a net yield on total cost of 5.2% with an initial weighted average lease term of 20 years.

\$101 million ELC development pipeline⁶

Ten development projects were acquired during FY2024 for a total expected cost of \$64 million at a net yield on total cost of 6.3%. As at 30 June 2024, the development pipeline is anticipated to comprise 16 ELC development projects with a forecast total cost of \$101 million, with approximately \$65 million of capital expenditure outstanding. The forecast weighted average initial yield on total forecast cost for the development pipeline is 6.0%.

Investment proposition and approach drives sustainable and commercial outcomes

Sustainability has been embedded across Arena's business strategies which best positions us to achieve positive long term commercial and community outcomes.

Sustainability outcomes delivered during FY2024 include:

- Zero organisational scope 1 and 2 emissions.
- 6-star rating for organisational NABERS energy co-assessment.
- Certified Carbon Neutral by Climate Active for business operations in 2022-2023.
- Certified Carbon Neutral by Climate Active for business services in 2022-2023.
- Registered to develop Arena's 'Reflect' Reconciliation Action Plan.
- Solar renewable energy systems installed on 90% of Arena's property portfolio.
- Adopted an [Emission Reduction Plan](#) targeting net zero Financed Emissions by 2050, with an interim 2030 target of a 60-70% reduction in the intensity of Arena's Financed Emissions⁷.
- A 36% absolute reduction and 42% reduction in the intensity of Arena's Financed Emissions⁸ to end FY2023.

Further information will be detailed in Arena's FY2024 Sustainability Report which is scheduled to be released in late September 2024.

Extension of borrowing facility

Arena has extended the maturity dates on each tranche of its \$500 million syndicated borrowing facility.

As at 30 June 2024, the weighted average remaining facility term will be 4.1 years with no expiry before 31 May 2027; and the undrawn debt facility capacity will be in excess of \$120 million and available to fund the development program and future growth opportunities.

Arena's weighted average cost of debt as at 30 June 2024 will be 4.0% compared with 3.95% as at 30 June 2023. 80% of borrowings are hedged for a weighted average term of 4.7 years. The weighted average hedge rate as at 30 June 2024 will be 2.03%.

⁶ Four development projects are conditionally contracted as at 30 June 2024.

⁷ Financed Emissions are Scope 3 Category 15 emissions by indoor floor area measured in kgCO₂e/m² in line with supplemental guidance for the financial sector by the TCFD as compared with equivalent restated FY2021 baseline.

⁸ As compared with equivalent restated FY2021 baseline.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "Arena has maintained capital management discipline through the cycle with consistent hedging programs, extension of facility term and sustained capacity to deploy capital into growth opportunities consistent with strategy."

FY2024 distribution of 17.4 cents per security

Arena has declared a final quarter distribution of 4.35 cents per security. The total FY2024 distribution is 17.4 cents per security which is in accordance with previous guidance and reflects growth of 3.6% over FY2023.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said "Strong macroeconomic drivers continue to support growth in the demand for essential community services across Australia. These themes, combined with Arena's disciplined capital management, development and asset management expertise, as well as the integration of sustainability across the business, underpin Arena's value proposition. We remain well positioned to pursue new social infrastructure opportunities that are consistent with our purpose and investment objective."

FY2024 Results

Portfolio revaluations as at 30 June 2024 remain subject to review by Arena's external auditors. Further details of revaluations, portfolio performance and financial results will be provided in Arena's FY2024 results which Arena intends to release to the ASX on Thursday 15 August 2024; teleconference details will be provided in due course.

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

– ENDS –

For further information, please contact:

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About Arena REIT

Arena REIT is an ASX200 listed property group that develops, owns and manages 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.