Stockland

# Bank of America Merrill Lynch Global Real Estate Conference

September 2009

www.stockland.com

# Stockland's position in the A-REIT sector

- Stockland was formed in 1952 and pioneered the stapled security structure

- Stockland's current position*:
  - Top 2 A-REIT
  - Largest diversified A-REIT
  - Total assets of >A$14bn
  - 14% of the A-REIT 200 Index


**Stockland Balgowlah, NSW**

* As at 21 September 2009

# Stockland - Australia's largest diversified REIT

## Australian Commercial assets[1] – A$7.9b

**Retail – $3.9b**

**Office – $2.9b**

**Industrial / Intermodal – $1.1b**

## Australian Residential assets[1] – A$3.6b

**Communities – $2.0b**

**Apartments – $0.5b**

**Retirement – $0.5b**

1. As at 30 June 2009

# Residential - Overview

## FY09 recap - Communities

- Strong sales – market leading position
- Adjusted quickly to First Home Buyer opportunity
- Record level of contracts on hand @ June 30 (1,659 @ 31 July)

## FY09 recap - Apartments

- Poor performance
- Strategic review of Apartments business underway

| Communities FY09 | |
|---|---|
| Lots settled | 4,303 |
| Average retail price* | $206k |
| Revenue | $873m |
| Operating profit (pre-impairment) | $184m |
| Net margin | 21.1% |
| Contracts on hand - no. | 1,215 |
| - $ | $205m |
| Net funds employed | $1.8bn |

| Apartments FY09 | |
|---|---|
| Units settled | 175 |
| Average retail price* | $1,294k |
| Revenue | $227m |
| Operating (loss)/profit (pre-impairment) | ($9m) |
| Net margin | (4.0%) |
| Contracts on hand - no. | 310 |
| - $ | $330m |
| Net funds employed | $0.5bn |

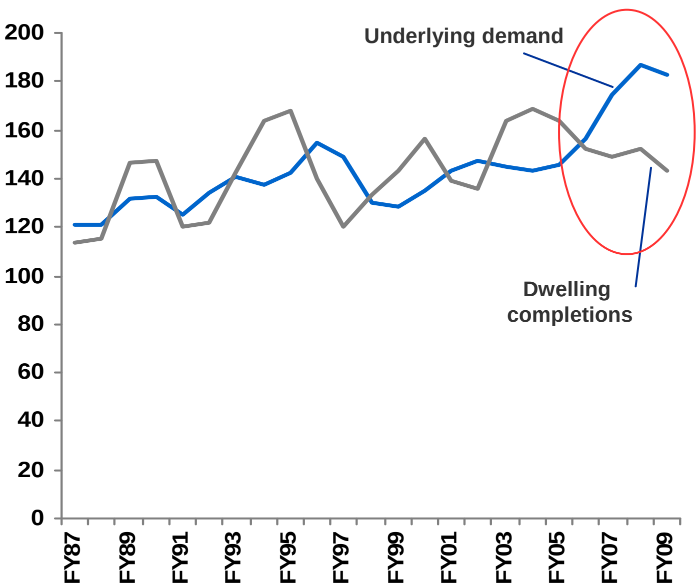


* Average price is for retail sales only (defined as less than the equivalent of 10 lots) and excludes the impact of super lot sales and project disposals. Average price includes GST

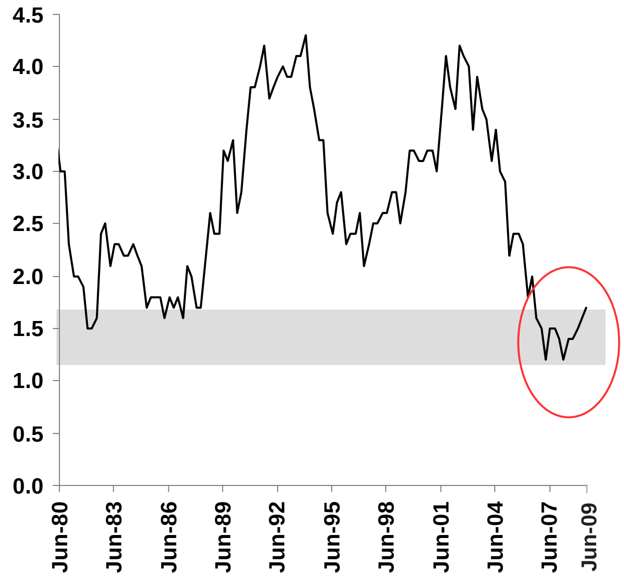
# Australia is undersupplied with housing

| Major undersupply of housing has developed since 2006.. | ..causing rental vacancies to fall to record low levels.. | .. strong population growth is expected to continue, causing further supply / demand imbalance |
|---|---|---|

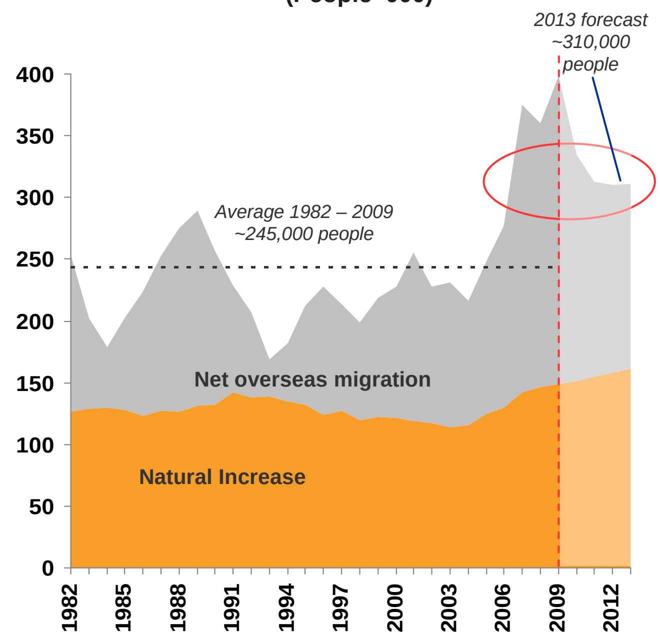
**Underlying Demand & Supply of Dwellings**
**(000s)**




**National Rental Vacancy Rate**
**(%)**




**Annual Australian Population Growth p.a.**
**(People '000)**

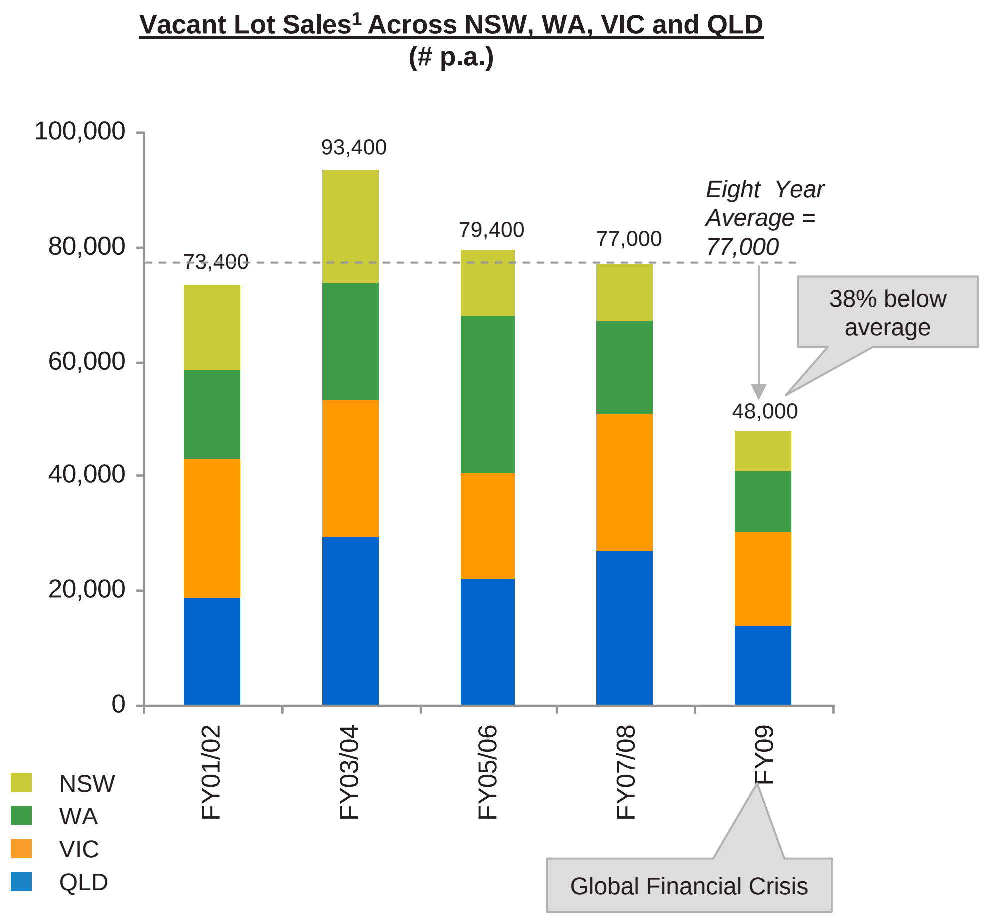


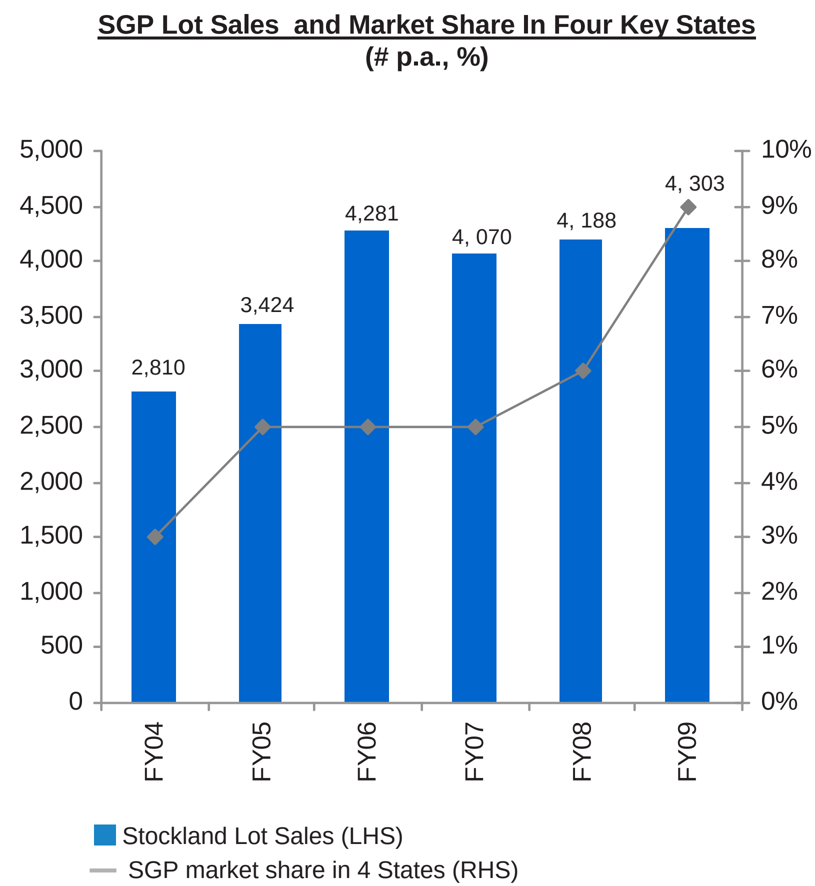

**Leading economists estimate the cumulative housing shortage will reach 250,000 by the end of FY10**



Sources: ABS, REIA, Access Economics, ANZ, Stockland Research

# Despite the very weak market, we achieved increased lot sales in FY09



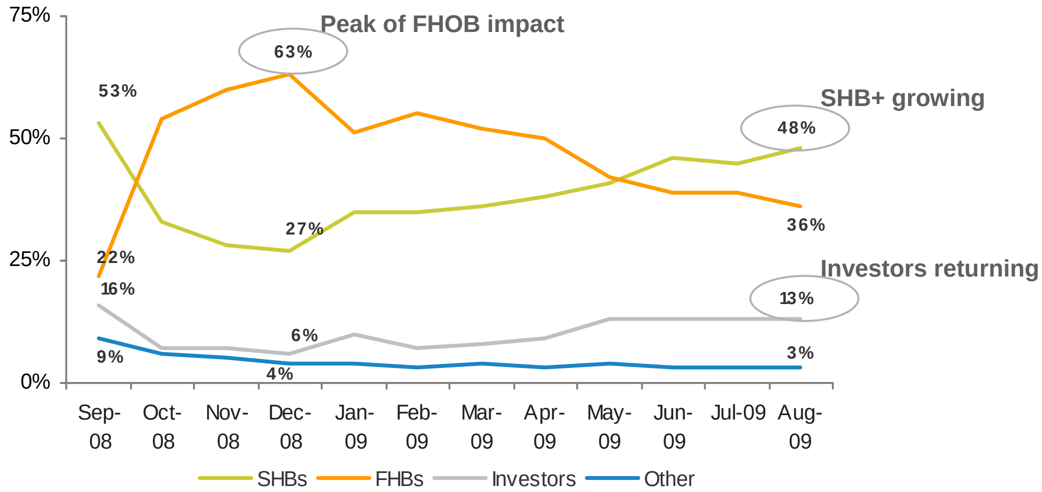




1- Lots less than 2,000 m[2]
Source: RP Data, ABS, Stockland Research

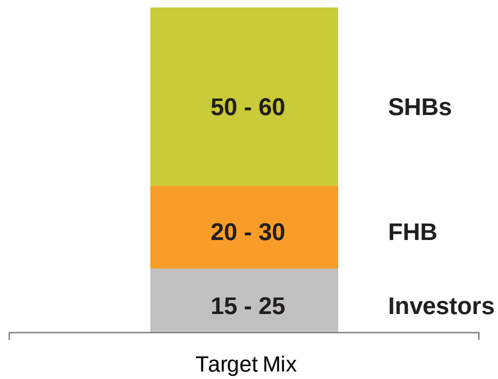
# We are well prepared for the end of the First Home Owners Boost

- During 2009 we have transitioned our products towards second home buyers and investors
- Over the past 3 months we have seen second home buyers return to be the largest proportion of our leads
- Investors are also gaining momentum – rising rents, low interest, rising prices, negative gearing

## Residential Communities leads* by segment (%)




## Long term target mix to maximise market share (%)






* Potential purchaser who has expressed interest in a specific Stockland project

# Our goal is to increase annual lot sales to 5,000+ by growing market reach and market share in key population growth corridors

**Market fragmentation provides opportunity to grow:**

- We are underrepresented in several key growth corridors
- Many smaller developers are sub-scale and undercapitalised

**Focus on speed to market**

- Targeting acquisitions that can deliver profit within 3 years

**Rezoning / planning is a core competency**

- We will retain our 5 year+ landbank as a proportion of total inventories
- Embedding future higher margins as we move through planning

**Wyndham acquisition – Truganina**


- High growth corridor – Wyndham, VIC
- New corridor for Stockland
- ~1,300 lots, average house price $300,000 - $350,000
- Profit from FY11

## Residential summary

- Market conditions continue to improve, but all eyes on end of FHOB
- Residential Communities is a sustainable growth business
- Clear strategy to grow market share and leverage our competitive advantage

**Stockland Caloundra Downs, QLD**

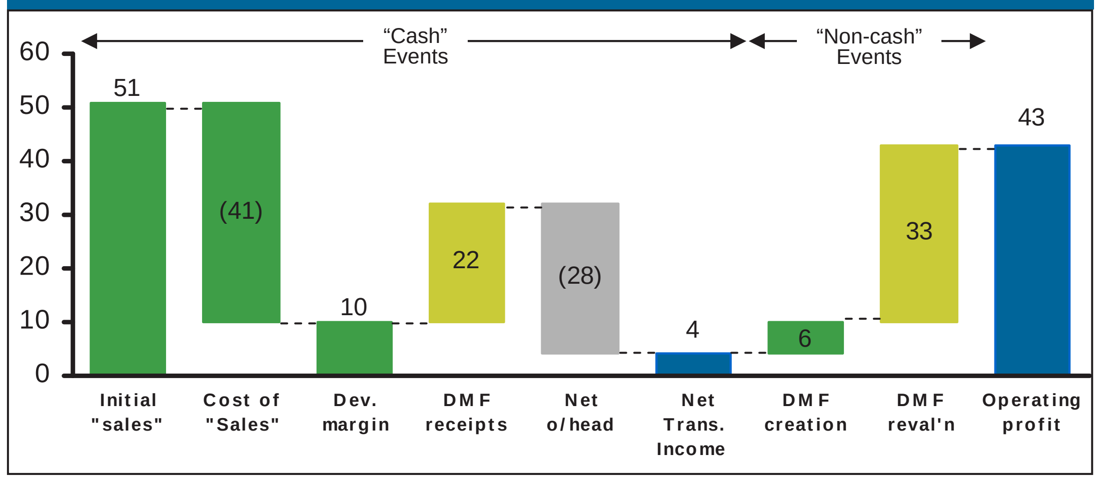
# Retirement Living - Overview

## FY09 recap

- Solid profit performance
- Delays at new projects impacted number of new units settled (profits now expected in FY10)
- Established turnover volumes lower:
  - harder for new residents to sell existing homes (soft re-sale market)
  - now improving
- Independent valuation of all established villages*:
  - DMF revaluation - down $8m
  - validates accuracy of internal valuation model and conservative assumptions on ARC acquisition

| Retirement FY09 | |
|---|---|
| Operating profit | $43m |
| New units settled | 163 |
| - Average price | $313k |
| Established units settled | 217 |
| - Average price | $229k |
| Occupancy | 98.8% |
| Net funds employed[(1)] | |
| - Established villages | $283m |
| - Development projects | $126m |
| - Goodwill[(2)] | $108m |

**FY09 Operating profit ($m)**




*Excluding two Rylands properties

1) NPV of DMFs + Construction WIP + Goodwill + Other; 2) Increase from Rylands acquisition

## Retirement Living combines two basic property businesses and plays to Stockland's core strengths


### Residential development

- Acquire land, re-zone, masterplan a community, build a village
- Development profit
  - Sales revenue less costs of development
  - Lower than pure residential due to community facilities
- KPIs: $/m², % development margin, development IRR

+


### Asset management

- Manage a portfolio of tenanted assets; keep residents satisfied
- Replace outgoing residents efficiently
- Refurbish periodically to maintain economic value
- Deferred Management Fees (DMFs)
  - A fee on exit linked to the duration of stay
  - Effectively pays for the upfront community facilities
- KPIs: tenure on exit, turnover rate, price growth, time-to-replace

# Stockland Retirement Living's strategy

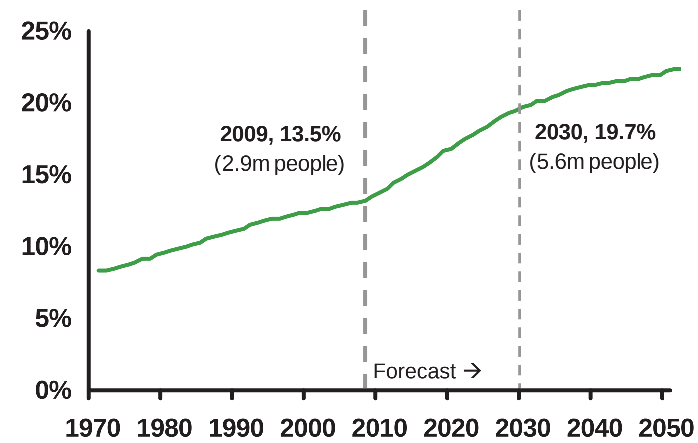
1. Develop new villages to capture a growing share of the bulging 65+ demographic
   - Continuously improve design through close interaction with our residents
   - Middle and upper-middle Australians in metro and outer-metro areas
   - Build a strong brand that stands for value-for-money and community-building

2. Make extensive use of Stockland's rich land bank
   - In locations offering the right amenity along the Eastern seaboard and in WA – diversifying the portfolio by geography

3. Draw on market-leading capabilities in other parts of Stockland
   - Residential Communities: land acquisition, masterplanning and execution
   - Commercial Property: asset management expertise

4. Deliver reliable portfolio returns providing the right mix of yield and growth
   - Increase the proportion of cash earnings as villages mature
   - Add more cash from completing and settling more developments
   - Improve economies of scale and lower earnings volatility through growth
   - Further streamline internal processes for efficiency

**Percentage of Australians aged 65 and over**




*Source: ABS, Stockland analysis*

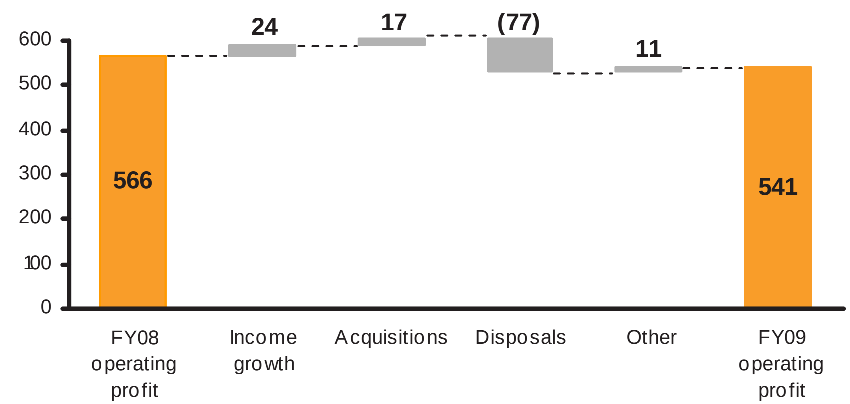
- An estimated 115,000 additional units will be required by the year 2030 based on expected industry take up rates
- Equates to around $30bn of new stock to be delivered at current average pricing

# Commercial Property - Overview

## FY09 recap

- Strong earnings performance across all asset classes – comparable income growth +5.9%
- High portfolio occupancy
- Delivered on asset sales program - $592m

**Commercial Property operating profit ($m)**




## Market outlook

**Retail**

- Retailer sentiment is improving
- Arrears still low and no real signs of retailer distress
- Demand for new shops is patchy and project leases require increased incentives

**Office**

- Office market vacancies increasing and sublease space growing
- Most tenants are not relocating
- Incentives increasing in all markets

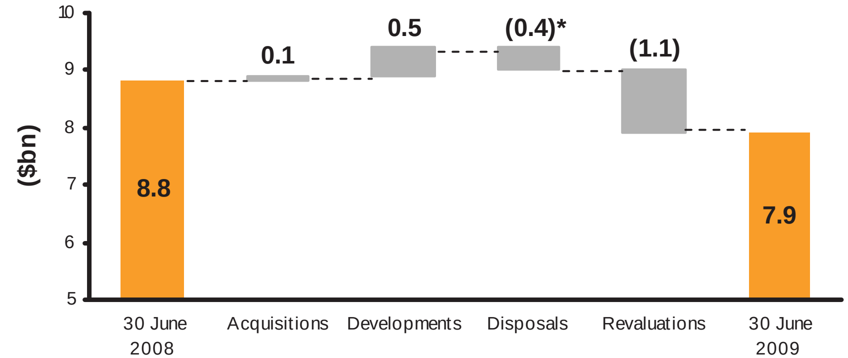
**Industrial**

- Industrial market is challenging
- Major transport related hubs outperforming commodity space

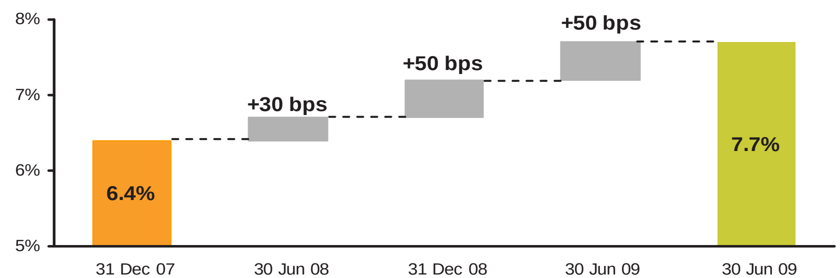
# Commercial Property - asset values

- Weighted average cap rate softened 130bps since the peak of the cycle (20% decline)
- 93% of assets independently valued at 30 June 09 (remaining 7% under development)
- Anticipate further 25-50bps softening by the end of 2009:
  - taking us back to FY04 cap rates
  - growing transactional market evidence
- Development:
  - $458m completed in FY09
  - $368m underway (due for completion by FY12)
  - $150m due to commence in FY10 (Merrylands stages 3+4)
  - other projects on hold until retailer and business confidence improves

**Commercial Property – book values ($bn)**




**Commercial Property – weighted av. cap rate**




**Composition** (31 Dec 07)
Retail: 6.2%
Office: 6.4%
Industrial: 7.3%

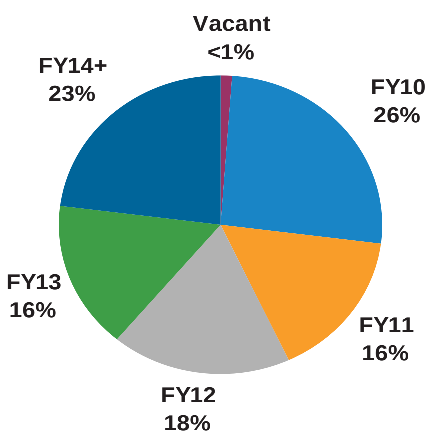
**Composition** (30 Jun 09)
Retail: 7.3%
Office: 7.9%
Industrial: 8.6%

* Excludes Edmund Barton Building

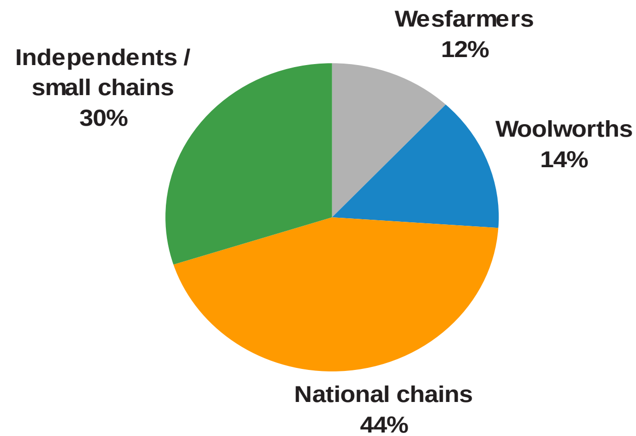
# Retail performance

- Portfolio is well placed with shopping centres weighted towards non-discretionary expenditure
- Comparable income growth of +6.8% achieved in FY09
- Solid MAT growth of 4.3%, comparable MAT growth of 2.4%
- Vacancies remain low
- Speciality occupancy costs stable at 12.8%
- Minimal oversupply – trade area specific

**Specialty shop lease expiry profile***




**Tenant rent composition^**



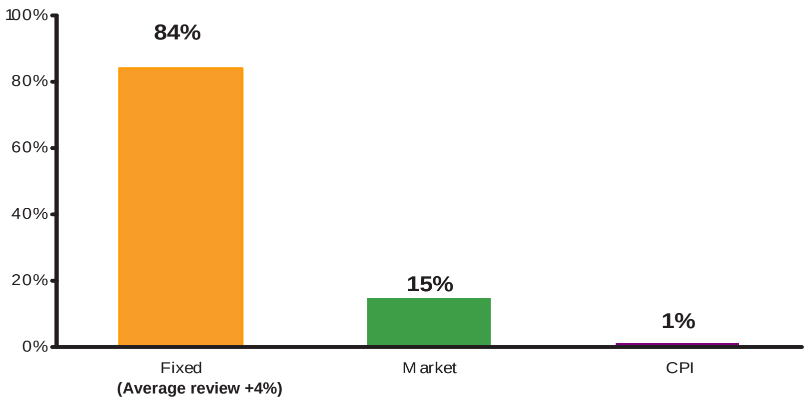

* By GLA

^ By gross passing rent

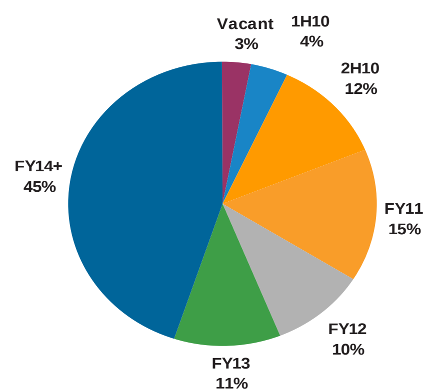
# Office performance

- Comparable income growth of +5.7% achieved in FY09
- No major expiry risk in FY10 – FY10 expiries occur mostly in 4Q10
- Office rent reviews due in FY10 – 84% subject to average 4% increase

## FY10 rent reviews




## Lease expiry profile*



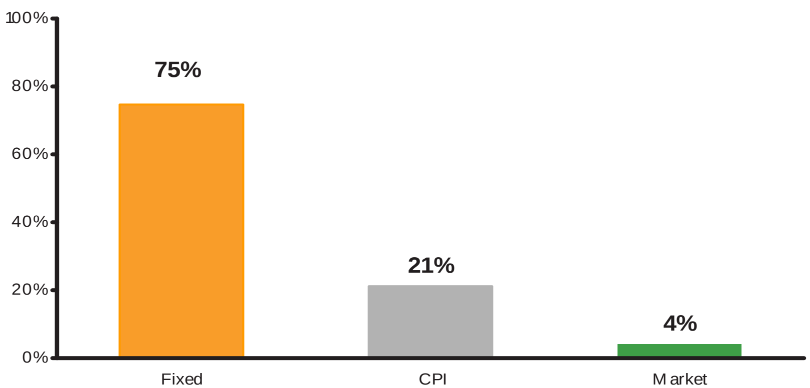

**WALE: 4.3 years**

* By NLA

# Industrial performance

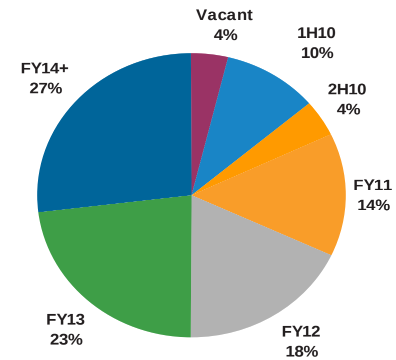
- Comparable income growth of +4.2% achieved in FY09
- Vacancies stable at 4.4%
- Minimal FY10 lease expiry risk

**FY10 rent reviews**




(Average review +3%)

**Lease expiry profile***




**WALE: 3.5 years**

* By NLA

## Commercial Property - summary

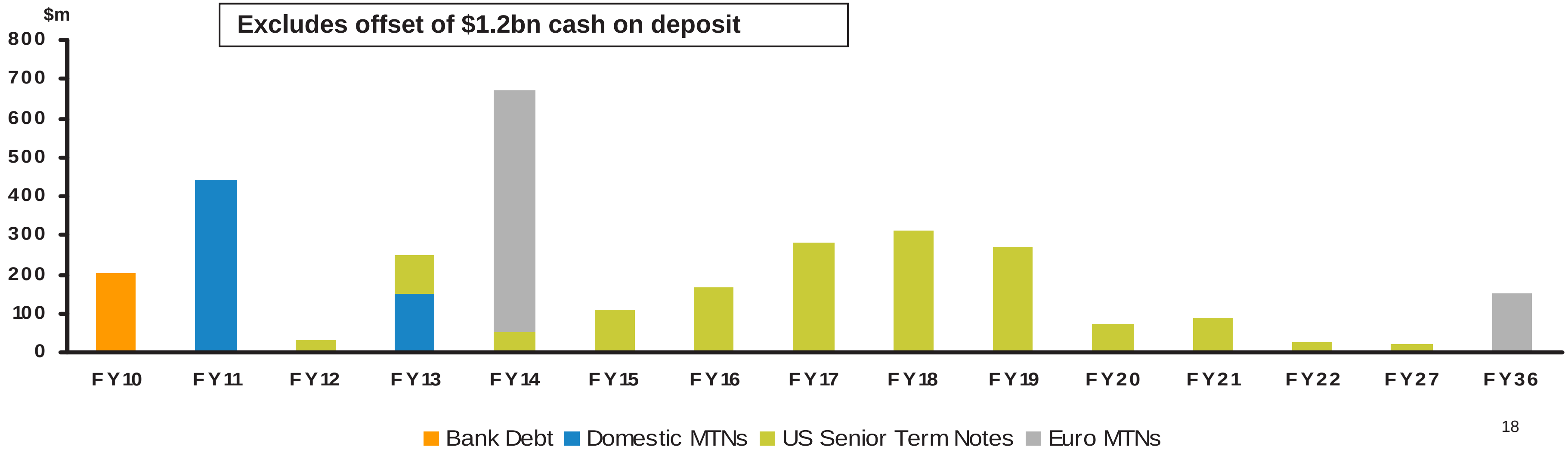
- Office and industrial markets:
  - – Sydney and Melbourne stabilising, while downward pressure remains in Perth and Brisbane
  - – Stockland portfolio is in good shape with no major lease expiry risk in FY10
- Retail sales still growing – rents unlikely to fall
- Cap rates anticipated to soften by a further 25-50bps by the end of 2009
- Development pipeline to be deferred until market conditions improve, but continue to seek DA approval for major projects
- Comparable income growth in FY10 expected to be flat across the portfolio

# Credit and debt maturity profile

| As at 30 June 2009 | |
|---|---|
| S&P rating | A- / Stable |
| Gearing (net debt / total tangible assets) | 16.0% |
| Interest cover | 2.8:1 |
| Available undrawn committed facilities (in addition to cash on deposit) | $1.3bn |
| Weighted average debt maturity | 6.6 years |
| Weighted average maturity of fixed / hedged debt | 6.9 years |
| **Current position** | |
| Debt fixed / hedged | 42% |
| Weighted average cost of debt | 5.0% |

Following June / July hedge restructure (using $110m of the $200m anticipated spend)

## Drawn debt maturity profile as at 30 June 09



# Stockland - strategic weightings

| | EBIT FY09 | | Assets 30 June 2009 | |
|---|---|---|---|---|
| | Actual | Strategic weighting | Actual | Strategic weighting |
| **Recurring** | | | | |
| Retirement Living | 5% | | 2% | |
| Commercial Property | 75% | | 72% | |
| Net overheads and other | (1%) | | 0% | |
| **Total recurring** | **79%** | **60-80%** | **74%** | **70-80%** |
| **Trading** | | | | |
| Residential | 25% | | 23% | |
| Retirement Living | 1% | | 0% | |
| Commercial Property | 1% | | 0% | |
| Net overheads and other | (6%) | | 3% | |
| **Total trading** | **21%** | **20-40%** | **26%** | **20-30%** |

- Asset and EBIT strategic weightings have remained unchanged over many years
- Provides optimum mix of stable recurring income and growth
- Enhance returns through cross business synergies
- Opportunities are assessed in line with these strategic weightings
- Filter for assessment:
  - – strategic fit
  - – value enhancement
  - – ability to execute

**Strategic goal - maintain Stockland's position as Australia's leading diversified property group**

## Strategy - Business units

Residential

- Leverage Residential Communities' competitive advantages
- Target land investment opportunities in growth corridors to deliver short and medium-term profits
- Review Apartments business in light of capital intensity / low returns

Commercial Property

- Improve asset quality through redevelopment and acquisitions both individually and through JVs
- Continued disposal of non-core properties
- Focus on cost and operational efficiency

Retirement Living

- Optimise price growth from existing villages
- Achieve economies of scale from development on existing land bank
- Increase cash proportion of total profit

UK

- Orderly sale of assets over the next two or three years
- Minimal profit impact

**Strategic goal - maintain Stockland's position as Australia's leading diversified property group**

# Strategic investments

GPT

- Exposure is in efficient financing structure
- Expires May 2010 and is effectively self-funding
- GPT's core assets fit with our strategy and our stake provides option value

FKP

- Largest retirement living operator in Qld
- First right over retirement living assets provides option value

AVE

- Largest for-profit retirement living operator in NSW

**Strategic stakes**

| | % | Cost | | Market value 24 September 09 | |
|---|---|---|---|---|---|
| | | Price ($) | Total $m | Price ($) | Total $m |
| **GPT*** | 13.1% | 0.72 | 877.3 | 0.655 | 795.9 |
| **FKP^** | 14.9% | 0.76 | 132.1 | 0.760 | 131.8 |
| **AVE** | 14.0% | 1.50 | 26.9 | 1.395 | 25.0 |

* The GPT stake is held indirectly via equity derivatives. The values above reflect the cost and market value if the equivalent investment was held directly

## Summary & outlook

- Financially strong and well-placed to capitalise on the expected economic recovery:
  - low gearing
  - streamlined operations in FY09
  - full benefits of cost and operational efficiencies to come through in FY10
  - focused on value accretive growth opportunities
- Economic conditions improving - we remain cautiously optimistic
- Residential Communities - entered FY10 with record contracts on hand and strong sales momentum
- Commercial Property - no major lease expiry risk in FY10 and in good shape to weather the cycle
- Retirement Living - significant upside both organically and through acquisition
- Apartments - profit expected in FY10 from projects due for completion
- UK – break-even result expected during orderly wind down over next 2 to 3 years
- FY10 guidance (assumes no material adverse change to economic conditions):
  - EPS 28 cents
  - AFFO 27 cents
- FY10 distribution - 80% of AFFO in line with our revised distribution policy*

*Assumes no material capital gains from asset sales or other major changes that would increase Trust Taxable Income > 80% of AFFO

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