



10 February 2010

## ASX/Media Release

### STOCKLAND DECEMBER 2009 HALF-YEAR RESULTS

- Underlying profit \$334.6 million, up 17% on 1H09
- Underlying earnings per security 14.1 cents, down 21% on 1H09 due to higher number of shares on issue
- Distribution per security 10.8 cents
- Statutory profit \$213.7 million
- Gearing (Net Debt / Total Tangible Assets) 18%
- FY10 EPS guidance upgraded from 28c to 29c

Managing Director Matthew Quinn said: "The last couple of years have been challenging. We had to make a lot of tough decisions, such as last year's capital raising which places us in a strong financial position, but also came at the cost of dilution to our securityholder returns.

"As we move into the economic recovery phase we are focussed on rebuilding securityholder value through a clear, consistent strategy and delivering strong financial results.

"Today's announcement of solid underlying profit growth, momentum in our core business operations and upgraded guidance for the full year reflects good progress towards these outcomes.

"In the first half, we continued to adapt our Residential product to meet market demand and delivered record sales results. We also acquired four residential land parcels in new growth corridors.

"We commenced three new Retirement Living projects and in our Commercial Property business, we leveraged our asset management expertise to deliver solid leasing results and reasonable rental growth.

"Our operating businesses enter the second half in a good position. We have a strong balance sheet, good cash flows and long-dated debt," Mr Quinn said.

## OPERATING RESULTS

### Residential

#### ***Residential Communities: EBIT \$107 million, operating profit (incl. interest in COGS) \$84 million***

- Record sales performance, with single lot sales up 70% on 1H09
- EBIT margin 25%, net margin (incl. interest in COGS) 20%, slightly down on 1H09
- Record contracts on hand – 1,879 lots, \$408 million of revenue

Single lot sales increased across all states and market segments, delivering a record sales performance for the half. Stockland's product innovation and ability to adapt quickly to cater to a broad range of buyer segments led to 7% growth in average land sale price per square metre and a 21% increase in revenue.

Despite this price growth, margins were slightly down on last year due to the settlement of low margin aged inventory (now completed) and lower super lot sales. Margins are expected to improve by 1-1.5% in the second half.

First home buyers continued to underpin sales in the first half, making up 42% of deposits taken. However, the expected shift in buyer composition since the reduction in the First Home Owners Boost has seen the proportion of first home buyers move back towards Stockland's target range of 20-30%. Upgraders have more than made up for the reduction in first home owner enquiry and now comprise the majority of leads, with enquiry levels at their highest in almost 18 months.

Second half profits are expected to be higher than the first half through the settlement of the record number of contracts on hand and higher super lot sales.

Stockland has extended its market-leading position into three new growth corridors with the acquisition of four new land parcels<sup>1</sup> to date in FY10 for a total of \$205 million. These new developments significantly increase the Group's geographic diversity and are expected to generate around 3,550 lots with first settlements occurring from FY11.

#### ***Apartments: EBIT \$23 million, operating profit (incl. interest in COGS) \$6 million***

- 236 units settled
- Delivery of current projects on track with good pre-sales

Stockland achieved a good level of Apartments pre-sales and settlements in the first half, particularly at The Village and The Hyde in Sydney and Tooronga in Melbourne. However, Stockland's Apartments projects have not delivered appropriate returns, with internal product positioning and delivery issues impacting speed to market.

Further urban consolidation is inevitable to meet the Federal Government's population growth forecasts. Future apartments projects will only be considered as part of mixed-use developments which play to the Group's diversified asset class capabilities. Such projects will need to demonstrate appropriate risk-adjusted returns.

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<sup>1</sup> Includes three acquisitions in Vic and a project development agreement for a 50% interest in the development of a residential community in WA.

The Village, Balgowlah is a prime example of the Group's mixed-use development capability. While the returns were below internal benchmarks, Stockland is confident that with the lessons learned, future projects of this type can meet return hurdles and provide outstanding facilities to retail and residential customers.

Existing Apartments projects underway will be completed and vacant sites will be progressively sold, as none have the desired mixed-use attributes. This orderly process is expected to return around \$600 million in net cash flow over the next two to three years.

### **Retirement Living**

#### ***Retirement Living: operating profit \$21 million***

- 65 new units and 122 established units settled
- High portfolio occupancy and development pipeline on track
- Definition of operating profit changed to a normal accruals basis; non-cash profits such as Deferred Management Fee (DMF) revaluations now excluded from operating profit

Occupancy levels remain high, with strong demand supporting increases in both volumes and prices compared to last year.

A strategic review of the Retirement Living development pipeline resulted in a \$31 million below-the-line impairment charge due to site-specific location and design considerations on three projects where Retirement Living is no longer considered highest and best use of the land.

Five villages are currently under development, representing approximately 700 independent living units to settle, with 120 already sold. The development pipeline of around another 2,300 units will deliver good development profits and recurring DMF income on completion.

### **Commercial Property**

#### ***Retail: net operating income \$132 million***

- Comparable net income growth of 4.0%
- High portfolio occupancy of over 99%
- 5.6% net rent increase on specialty shop renewals
- Specialty occupancy costs 13.6%

Retail trade continues to be supported by strong population growth but consumers are still adopting a cautious approach to retail spending. Comparable moving annual turnover growth to 31 December in Stockland's centres was a modest 1.6%, however vacancies remain low with good take up of new space.

**Office: net operating income \$97 million**

- Comparable net income growth of 1.4%
- Portfolio occupancy of 95%

Passing rents remain in line with the market, and Stockland continues to focus on securing quality long-term tenants. Weighted average lease expiry improved from 4.3 years to 4.6 years.

CBD office markets are expected to stabilise with vacancy levels set to peak in 2010. Office lease incentives appear to have plateaued, but comparable office income growth is expected to decline in the second half due to the impact of incentives on recent leases.

**Industrial: net operating income \$39 million**

- Comparable net income growth of -4.4%
- Portfolio occupancy of 93%

The industrial market continues to be underpinned by constrained supply. Stockland's industrial vacancy rate is higher than historic levels, due to vacant space in two Melbourne properties currently under refurbishment.

**Revaluations**

Stockland's weighted average capitalisation rate increased 10bps during the half and appears to have stabilised, after falling by an average of 22% since the peak in December 2007.

There was a \$330 million downward revaluation of commercial property asset values in the first half and a further minor devaluation is expected in the second half due to the impact of office lease incentives.

**Development pipeline**

Four retail development projects are under construction and due for completion by FY12 including Merrylands, Rockhampton and Tooronga.

The rest of the development pipeline has been reviewed with five retail projects set to commence in the next 18 months. These include the Townsville and Shellharbour regional shopping centres, which have agreements for lease with Myer. In addition the Newhaven and Highlands neighbourhood centres will commence, adding amenity to these Stockland Residential Communities.

**UK**

**UK: operating profit \$1.7 million**

Stockland will continue its orderly work out and asset sales program in the UK over the next two to three years and an estimated \$300 million of cash flow will be available for reinvestment in the Australian business. A break-even operating result is expected over this period.

## **CAPITAL MANAGEMENT AND LIQUIDITY**

- Gearing: Net Debt / Total Tangible Assets 18% (net of cash on deposit)
- Weighted average debt maturity 6.3 years
- Over \$1.1 billion of cash on deposit in addition to \$1.1 billion of available committed debt facilities

Stockland's balance sheet remains strong with a wide diversity of available debt sources and a long-dated debt maturity profile.

## **STRATEGY AND OUTLOOK**

Stockland is focussed on delivering increased securityholder returns through the growth of its three core businesses: Residential, Retirement Living and Commercial Property.

The Residential business remains focussed on enhancing its market-leading position and growing market share by acquiring land in key growth corridors.

Retirement Living is a key growth platform with rising demand as the population ages. By utilising Stockland's existing land bank, the development pipeline will add significant scale to the business over the next few years.

Stockland has a large retail development pipeline with four projects under construction and five projects set to commence in the next 18 months.

The Group's organic growth is fully funded for the foreseeable future given its strong balance sheet, expected positive cash flows from the trade out of the UK operations and the completion and sale of Apartments projects and sites.

### ***Strategic stakes***

Stockland holds stakes in GPT, FKP and Aevum which it originally acquired in order to provide strategic optionality to diversify and grow its core businesses.

The 13.1% GPT stake is held via a derivative structure which has been extended for 12 months to May 2011. As a result, the average entry price has increased negligibly and the derivatives are otherwise self-funding for their duration.

Stockland owns 14.9% of FKP and retains an ongoing first right of refusal over FKP's retirement living assets.

The stake in Aevum has been diluted from 13.9% to 10.1% following Aevum's merger with IOR Group.

Merger and acquisition activity will only be contemplated if it can secure high-quality assets that fit with Stockland's business unit strategies and enhances securityholder returns.

## **Sustainability**

Stockland recognises the importance of sustainability to its long-term success and aims to integrate sustainability principles into the way it works, to deliver long-term value to its customers, tenants, investors and business partners.

Stockland was ranked 24<sup>th</sup> in the Corporate Knights Global 100 Most Sustainable Corporations in the World at the 2010 World Economic Forum in Davos, Switzerland. The Group was one of only eight Australian companies to make the list and named the top diversified property company in the world. This comes after the Group was named Ethical Investor's 2009 Australian Sustainable Company of the Year.

## **Outlook**

Stockland Managing Director Matthew Quinn said: "While market dynamics continue to fluctuate, we enter the second half in the strongest shape we have been in for some time and our business is well positioned to deliver results through the market cycles.

"I'm confident that we have a proven business model, a clear strategy and the right management team in place to deliver it," Mr Quinn said.

*Stockland's 2010 half year results presentation will be webcast via [www.stockland.com.au](http://www.stockland.com.au) on Wednesday 10 February 2010 at 11.30am (AEDST).*

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## FACT SHEET - STOCKLAND 2010 FIRST HALF RESULTS

	1H10	1H09
Statutory profit/(loss)	\$213.7m	(\$726.9m)
Underlying profit <sup>2</sup>	\$334.6m	\$286.9m
Underlying earnings per security <sup>2</sup>	14.1c	17.8c
AFFO per security <sup>3</sup>	12.7c	13.3c
Distributions per security	10.8c	17.0c
NTA per security	\$3.59	\$4.86

## OPERATIONAL RESULTS

### Residential

<b>Communities</b>	1H10	1H09
EBIT (before interest in COGS)	\$107m	\$92m
Operating profit (incl. interest in COGS)	\$84m	\$77m <sup>4</sup>
Lots settled	2,437	1,434
EBIT margin (before interest in COGS)	25%	26%
Operating profit margin (incl. interest in COGS)	20%	22%
Contracts on hand - number	1,879	1,205
- dollar value	\$408m	\$225m
<b>Apartments</b>	1H10	1H09
EBIT (before interest in COGS)	\$23m	\$1m
Operating profit/(loss) (incl. interest in COGS)	\$6m	(\$5m) <sup>3</sup>
Units settled	236	59
EBIT margin (before interest in COGS)	15%	1%
Operating profit margin (incl. interest in COGS)	4%	(6%)
Contracts on hand - number	455	301
- dollar value	\$454m	\$388m

<sup>2</sup> Underlying Profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of Stockland, in accordance with the AICD/Finsia principles for reporting underlying profit

<sup>3</sup> Prior period EPS and AFFO per security have been adjusted for the dilutionary impact of the Equity Raising announced on 13 May 2009 as required by accounting standards, and also exclude inventory write-downs

<sup>4</sup> Pre-write-down

### **Retirement Living**

	<b>1H10</b>	<b>1H09</b>
Operating profit (revised definition) <sup>5</sup>	\$21m	\$19m
New units settled	65	62
- Average price	\$366k	\$297k
- Development margin (pre-overhead)	16.0%	14.0%
Established unit turnovers	122	104
Occupancy	99%	99%

### **Commercial Property**

<b>Retail</b>	<b>1H10</b>	<b>1H09</b>
Net operating income	\$132m	\$126m
Asset revaluations	(\$181m)	(\$124m)
Comparable net income growth	4.0%	5.8%
Occupancy	99%	99%
<b>Office</b>	<b>1H10</b>	<b>1H09</b>
Net operating income	\$97m	\$95m
Asset revaluations	(\$134m)	(\$186m)
Comparable net income growth	1.4%	3.3%
Occupancy	95%	98%
<b>Industrial</b>	<b>1H10</b>	<b>1H09</b>
Net operating income	\$39m	\$48m
Asset revaluations	(\$13m)	(\$57m)
Comparable net income growth	-4.4%	5.8%
Occupancy	93%	96%

### **Stockland UK**

	<b>1H10</b>	<b>1H09</b>
Operating profit/(loss)	\$1.7m	(\$0.3m)

<sup>5</sup> 1H09 adjusted for comparative purposes only to reflect the changes in accounting policies. If accounting changes were applied historically, the equivalent figure in 1H10 would have been approximately \$3m lower.