ASX/Media Release

Stockland

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STOCKLAND TIGHTENS FY22 GUIDANCE RANGE, DIVESTS RETIREMENT LIVING BUSINESS AND ESTABLISHES TWO NEW CAPITAL PARTNERSHIPS

Financial results for the six months ended 31 December 2021 (1H22)

- Statutory profit of $850 million ($339 million in 1H21[1])
- Net tangible assets (**NTA**) of $4.23 per security, up 6.3% from 30 June 2021 reflecting strong revaluation gains
- Funds from operations (**FFO**) of $350 million, down 9.3% on 1H21 reflecting material 2H skew as previously disclosed
- FFO per security of 14.7 cents, down 9.3% on 1H21
- FY22 FFO ps guidance range tightened to 35.1-35.6 cents
- Strong operational metrics across the Commercial Property portfolio: 97.5[2]% rent collection for 1H22; comparable FFO growth of +2.3%[3]; positive leasing spreads of +1.2% in Town Centres
- Sustained volume and pricing momentum in Masterplaned Communities, with contracts on hand up 30% versus FY21 and 18.2% operating profit margin
- Land Lease Communities and Halcyon acquisition tracking ahead of expectations
- Residential price growth and margin expansion expected to offset FFO impact of settlement deferrals into FY23 due to COVID-19 supply chain disruption and wet weather
- Capital management metrics strong with gearing at 23.3% and $1.3bn of available liquidity

Executing the strategy

- Binding agreement to divest the Retirement Living business[4]
- Established two new capital partnerships, in Land Lease Communities and at M_Park[4]
- Strategic transactions announced post-balance date expected to drive FY23 FFO accretion[4]
- Post-balance date transactions reduce gearing by ~7% on a pro-forma basis and provides additional $1.2bn of liquidity, ahead of capital redeployment

1H22 overview

Stockland (ASX: SGP) has today released its results for the half year to 31 December 2021.

Stockland delivered a statutory profit of $850m, up from $339m[1] in 1H21. The statutory result includes $543 million of net commercial property revaluation gains, equating to a 5.5% uplift versus June 2021 book values. These revaluation outcomes reflect improved investor demand for high

[1] Comparative information has been restated for the impact of the IFRIC agenda decision, "Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)". Refer to Note 22 of the Financial Accounts for more details on the impact.
[2] Rent collection rates across the Commercial Property portfolio up to 31 January 2022 on December year-to-date billings. Includes all provisioned COVID-19 abatements.
[3] Excludes COVID-19 abatements and Expected Credit Loss provisions ("ECL").
[4] Post-balance date; subject to Foreign Investment Review Board approval.
Note: All relevant Group financials include Retirement Living, which is classified as a discontinued operation.

quality, essentials-based Retail assets, strong transactional evidence for high quality Logistics assets, and a broadly stable asset pricing environment for Workplace assets.

Funds From Operations of $350m and FFO per security of 14.7 cents were both down by 9.3% relative to 1H21. As previously disclosed, Stockland expects FFO to be more heavily skewed to 2H in FY22 than in recent periods due to the timing of Residential settlements, previously contracted Retirement Living non-core village disposal profits, and COVID-related tenant assistance.

A distribution of 12.0 cents per security was declared, reflecting a payout ratio of 82% of FFO.

Managing Director and Chief Executive Officer, Tarun Gupta, said "We delivered a solid operational and financial result in 1H22, and have tightened our full year FFO per security guidance range. While maintaining our focus on operational excellence across our core business, we have also made significant progress toward implementing the strategy that we outlined in November of last year."

"We welcome two of the world's leading institutional investors, Ivanhoé Cambridge and Mitsubishi Estate, to our third party capital platform. The formation of two new capital partnerships, divestment of the Retirement Living business and further sale of non-core assets in our town centres portfolio over the half concentrates our focus on the core of our business. It enables us to redeploy capital toward opportunities in the residential, logistics and workplace sectors that we believe will generate superior returns on a sustainable basis."

Commercial Property

Commercial Property FFO declined by 2.8% relative to 1H21, despite positive comparable growth of +2.3%[5] across the portfolio. Increased trading profits were offset by the impact of non-core Town Centre disposals, COVID-related rental abatements and higher Commercial Property net overheads.

As at 31 January 2022, 97.5%[6] of contracted gross rent had been collected across the Commercial Property portfolio (96.5% Town Centres, 99.6% Logistics, 98.9% Workplace).

Town Centres

The Town Centres portfolio generated FFO of $153 million, representing growth of +2.0%[5] on 1H21. COVID-related rental abatements (net of ECL provision release) reduced 1H22 Town Centre FFO by $27m, versus a reduction of $8m in 1H21.

Town Centres rent collection rates were strong at 96.5%[6], across high portfolio occupancy of 99.1% (maintained in line with June 2021).

Stockland achieved positive average spreads of +1.2% across 313 leasing transactions as leasing conditions strengthened over the period. This represents a marked improvement versus -7.8% for 1H21 and -6.1% for FY21.

The portfolio delivered comparable MAT growth to December 2021 of +0.4%, with turnover impacted by extensive trade restrictions in NSW and VIC over 1Q22.

Sales performance in the states less affected by COVID-19 was particularly strong, with total MAT growth of 5.3% in QLD and WA.

Specialty stores delivered comparable MAT growth of +2.9%, with QLD and WA specialties growth of +10.8%.

CEO, Commercial Property, Louise Mason said: "Our Town Centre portfolio has proven its resilience during a period of significant disruption. The portfolio benefits from a high level of exposure to low-discretionary categories, and the extensive remixing and repositioning that we have undertaken in recent years is reflected in a return to positive leasing spreads this half".

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[5] Excludes COVID-19 abatements and Expected Credit Loss provisions ("ECL").
[6] Rent collection rates across the Commercial Property portfolio up to 31 January 2022 on December year-to-date billings. Includes all provisioned COVID-19 abatements.

Logistics

Logistics FFO increased 58.2% to $87m compared with 1H21. On a comparable basis, FFO growth was +3.7% excluding the impact of COVID-related abatements in the previous period. Growth was underpinned by 99.9% portfolio occupancy, fixed rental escalations and 5.1% average rental growth on new leases.

The result for the half includes trading profits relating to the Gregory Hills (NSW) project.

Since June 2021, development applications have been lodged for five additional Logistics projects within the $3.2 billion Stockland Logistics development pipeline. These projects have a combined end value of ~$370 million.

CEO, Commercial Property, Louise Mason said: “We have been focused on building the scale and quality of our Logistics portfolio in recent years, together with the capability of our team. We are now entering a period of accelerated delivery of our extensive development pipeline. We expect to undertake an average of ~$400m of Logistics development per annum over the next five years. This is more than double the average ~$150 million per annum in the five years to 30 June 2021.”

Workplace

Workplace FFO was flat compared with 1H21 at $56m. On a comparable basis, this represents growth of 1.9%[7], adjusting for COVID-19 rental support.

Occupancy remained high over the period at 90.6% despite disrupted work patterns, and rent collection was strong at 98.9%[8]. The average term to lease expiry sits at 4.8 years. The expiry profile for several assets within the portfolio is being managed to support the development pipeline.

Stockland continues to progress the $5.9bn Workplace development pipeline. Post-balance date, the Group entered into a capital partnership[9] with Ivanhoé Cambridge for the staged development of up to $2bn at the M_Park Precinct in Macquarie Park, Sydney[10].

M_Park is a landmark development, designed to deliver prime life sciences and technology space with leading sustainability outcomes in line with Stockland’s ESG commitments.

The Piccadilly (Sydney CBD) and Affinity Place (North Sydney) development projects continue to progress through the authority approvals process.

Communities

Masterplanned Communities

The MPC business reported FFO of $122 million, down 10.3% versus 1H21. This reflects a more material skew in settlement volumes and FFO contribution to the second half of the financial year than in recent periods, consistent with previous guidance.

CEO, Communities, Andrew Whitson said: “Enquiries remain well above long run averages, with market supply unable to keep pace with strong demand. This is reflected in 1H22 net sales of 3,815 lots, in line with sales volumes in 1H21 that were elevated by State and Federal Government stimulus measures, such as HomeBuilder, that have subsequently been withdrawn.”

Settlement volumes totalled 2,329 lots over the half (1H21: 3,101 lots), with the decline versus the previous corresponding period driven by project staging.

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7 Excludes COVID-19 abatements.
8 Rent collection rates across the Commercial Property portfolio up to 31 January 2022 on December year-to-date billings. Includes all provisioned COVID-19 abatements.
9 Post-balance date; subject to Foreign Investment Review Board approval.
10 Stage 1 estimated end value $760m. Future stages are subject to approvals.

The strong sales result achieved over the half has driven a 30% increase in contracts on hand to 6,436 lots. Average pricing for these lots is ~14% above the FY21 settlement average.

Sustained price growth and a greater contribution from NSW projects drove an improvement in operating profit margin to 18.2% for 1H22 (1H21: 17.4%). The operating profit margin for FY22 is now expected to be above 18%.

The positive impact of margin expansion on FY22 FFO is expected to offset the impact of some settlement deferrals from 2H22 into FY23. This reflects production delays associated with COVID-19 supply chain disruption and wet weather in South East Queensland. FY22 settlement volumes are now expected to total approximately 6,000 lots.

Land Lease Communities

The Land Lease Communities business is performing ahead of the assumptions that underpinned Stockland's acquisition of the Halcyon business in August 2021. The combined business generated 212 net sales with price growth of approximately 12% over 1H22.

Stockland CEO, Communities, Andrew Whitson said: "The integration of Halcyon is progressing well as we leverage capability across the platform to drive synergies and value creation."

The impact of South East Queensland wet weather delays and COVID-19 supply chain disruption will likely see the deferral of approximately 60-80 settlements into FY23. The impact on FFO is expected to be partially offset by stronger margins over the period.

Post-balance date, Stockland announced the formation of the Stockland Residential Rental Partnership (SRRP)[11] with Mitsubishi Estate Asia to develop and own land lease communities. The partnership will have an initial value of ~$500m and six initial communities yielding approximately 2,000 home sites on completion. The growth of the partnership is expected to be driven by Stockland's substantial land lease development pipeline.

Stockland's land lease portfolio has scaled rapidly to approximately 9,000 home sites (including occupied home sites), with a development pipeline value of approximately $5bn[12].

Retirement Living

Post-balance date, Stockland announced the disposal of the Retirement Living business for $987m, at approximately 1.9% discount to book value[13].

The FFO contribution from the Retirement Living business of $17m was down relative to 1H21. As previously disclosed, this reflects the timing of profits on the disposal of non-core villages. These are expected to settle in 2H22, whereas in FY21 disposal profits were skewed heavily to the first half.

Operationally, the Retirement Living business performed strongly. Established settlements increased by 13.5% on 1H21, with sales volumes rebounding strongly in 2Q22 in line with easing restrictions.

Strong capital position, further enhanced by strategic transactions

Stockland's balance sheet position remains strong. As at 31 December 2021, gearing stood at 23.3%, and available liquidity totalled $1.3bn.

Stockland has maintained its investment grade rating of A-/A3 with stable outlook from S&P and Moody's respectively, and significant headroom in financial metrics under our debt covenants.

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[11] Post-balance date; subject to Foreign Investment Review Board approval.
[12] Stockland's land lease development pipeline is forecast to generate gross development realisations of approximately $5bn. Of this approximately $4bn is expected to commence construction during the SRRP's five-year initial investment period.
[13] Target settlement in late FY22, subject to approval by the Foreign Investment Review Board.

On a pro-forma basis, completion of the three strategic transactions announced post-balance date is expected to result in a ~7% reduction to gearing and increase available liquidity to $2.5bn, ahead of capital redeployment.

Stockland expects its weighted average cost of debt for FY22 to decline to 3.5% versus 3.6% for 1H22. Hedging is in place over 73% of borrowings.

Stockland CFO, Alison Harrop said: "We have managed our interest rate exposure prudently during a period of historically low interest rates. Our strong balance sheet position, with ample headroom under our debt covenants and pro-forma gearing below our target range – positions us extremely well to pursue growth opportunities."

The 1H22 distribution of 12.0 cents per security reflects a payout ratio of 82%, which is within the target range of 75-85% of FFO.

FY22 outlook and guidance

Managing Director and Chief Executive Officer, Tarun Gupta said: "The solid operational performance delivered in 1H22 provides us with good earnings visibility for the remainder of the financial year, notwithstanding the broader market uncertainty brought about by the ongoing COVID-19 pandemic, elevated input cost inflation, and interest rate volatility. Accordingly, we are tightening our FFO per security guidance range.

"The strategic transactions that we have announced post-balance date provide us with an extremely strong balance sheet position and are also expected to be accretive to earnings in FY23."

"Over the half year, we have made significant progress toward our strategic priorities, giving us confidence in Stockland's outlook. We remain focused on executing our strategy, building on our strengths while maximising the operational performance of the core business."

FY22 FFO per security is now expected to be in the range of 35.1-35.6 cents. This compares with previous guidance of 34.6-35.6 cents per security.

Distribution per security is expected to be within Stockland's targeted range of 75-85%.

Current market conditions remain uncertain. All forward looking statements, including FY22 earnings guidance, remain subject to no material deterioration in current market conditions and the continued easing of COVID-19 restrictions, and are underpinned by the following business assumptions:

- Residential settlements approximately 6,000 lots
- Residential operating profit margin above 18%
- Land Lease Communities delivering 220-240 home sites settlements in FY22
- Rent collection trends continue at current levels

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This announcement is authorised for release to the market by Ms Katherine Grace, Stockland's Company Secretary.

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