



Stockland

Stockland Direct Retail Trust No.1 (SDRT1 or the Trust)



Benowa Gardens is a neighbourhood shopping centre located on the Gold Coast originally constructed in 1992. The centre is anchored by a Coles supermarket and over 35 specialties including an increasing number of fast casual dining operators. There is on-site parking for 387 vehicles, including 200 covered bays.

At 30 June 2017

NTA PER UNIT
AT 30 JUNE
2017

\$1.11

6 MONTH
TOTAL
RETURN

4.3%

AGGREGATE
PROPERTY
VALUATIONS

\$86.8m

LOAN TO
VALUATION
RATIO

47.7%

Highlights

- Woolworths has commenced a full refurbishment of its store at Stockland Pacific Pines. The refurbishment is expected to be completed by the end of this calendar year. To further assist the centre's competitiveness and amenity, the Trust also plans to install shade sails over a third of the centre's car spaces by the end of this year.
- Continuing strong demand for large format retail centres has resulted in the capitalisation rate adopted for Tamworth Homespace firming by 50 basis points and the valuation of the centre increasing by \$0.6 million to \$18.1 million at 30 June 2017 from \$17.5 million at 31 December 2016. The aggregate valuation of the Trust's properties increased by 0.7 per cent to \$86.8 million at 30 June 2017.
- The Trust's Loan to Valuation Ratio (LVR) has decreased to 47.7 per cent at 30 June 2017 from 48.0 per cent at 31 December 2016.

Trust performance

The Trust provided a total return of 4.3 per cent for the six-month period ended 30 June 2017 reflecting distributions totalling 3.7 cents per unit paid during the period and a 0.8 per cent increase in the Trust's Net Tangible Assets (NTA) to \$1.11 per unit.

The total return of the Trust since inception remained steady at 8.7 per cent per annum at 30 June 2017.

| TRUST PERFORMANCE | | | |
|---------------------------|--------|---------|-----------------|
| PERFORMANCE | 6 MTHS | 12 MTHS | SINCE INCEPTION |
| Total return ¹ | 4.3% | 14.8% | 8.7% p.a. |

Debt update

The Trust's borrowings at 30 June 2017 were \$41.4 million, unchanged from the amount drawn at 31 December 2016.

The total borrowing cost of the Trust, which includes the margin, line fee and establishment fee payable and the fixed interest payable under the Trust's interest rate swap, has increased slightly to 4.2 per cent per annum at 30 June 2017 from 4.1 per cent at 31 December 2016.

| DEBT AT 30 JUNE 2017 | |
|----------------------|------------------|
| LOAN FACILITY LIMIT | \$43.0m |
| DRAWINGS | \$41.4m |
| TOTAL INTEREST RATE | 4.2% p.a. |
| YEARS TO MATURITY | 2.5 |

1. Calculated in accordance with Financial Services Council Standard No. 6 which assumes distributions are re-invested in the Trust.

KEY PROPERTY STATISTICS AT 30 JUNE 2017

| | BENOWA GARDENS SHOPPING CENTRE | STOCKLAND PACIFIC PINES | TAMWORTH HOMESPACE |
|---|--------------------------------|-------------------------|------------------------------|
| Independent valuation date | 30 June 2017 | 30 June 2017 | 30 June 2017 |
| Valuation | \$40,700,000 | \$28,000,000 | \$18,100,000 |
| Valuation rate per square metre | \$7,046 | \$5,067 | \$1,387 |
| Trust ownership | 100% | 100% | 100% |
| Capitalisation rate ¹ | 7.00% | 6.25% | 8.25% |
| WALE by rental income ² | 2.6 | 4.8 | 2.6 |
| Major tenant | Coles | Woolworths | The Good Guys |
| Major tenant GLA (% of centre GLA) | 1,960 sqm (34%) | 3,541 sqm (64%) | 2,404 sqm (18%) ³ |
| Major tenant lease expiry | April 2022 | October 2023 | March 2022 |
| Occupancy by rental income ⁴ | 95.5% | 90.3% | 100.0% |

1. The weighted average capitalisation rate for the portfolio is 7.0 per cent.

3. To be reduced to approximately 1,800 square metres once a suitable tenant is found.

2. The Weighted Average Lease Expiry (WALE) for the portfolio is 3.3 years by rental income.

4. The Occupancy for the portfolio is 95.1 per cent by rental income.

Asset overview

There is evidence that sales at Benowa Gardens have stabilised following the opening of the competing Benowa Village last year. However, sales at Stockland Pacific Pines continue to be negatively impacted by the opening of the new Coles supermarket nearby.

As we reported in our last update, the increased competition in the trade areas of both of these centres has created more challenging leasing conditions resulting in lower effective rents.

We expect to incur lessor works expenditure as we continue to execute our strategy of increasing the fast, casual dining and fresh food offers at both Benowa Gardens and Stockland Pacific Pines.

FY18 distribution outlook

As a result of these conditions set out above, we expect that Trust distributions payable during the financial year ending 30 June 2018 will be similar to FY17. Our FY18 distribution outlook is subject to the projected capital expenditure of the Trust and any variations in market, leasing and trading conditions.

Portfolio update

Strong demand continues to be experienced for smaller retail assets by high net worth private investors, smaller institutions and syndicates.

The number of vacancies across the portfolio increased by four premises to seven during the six-month period ended 30 June 2017. This increase in vacancies has resulted in the Trust's occupancy decreasing to 95.1 per cent by income at 30 June 2017 from 98.6 per cent at 31 December 2016.

We are pleased to report, however, that one vacancy has since been let and we are in advanced discussions with other parties to lease several of the remaining vacancies.

A total of three specialty leases were renewed and one new specialty lease commenced during the six-month period ended 30 June 2017 which in aggregate represented 3.8 per cent of Trust specialty income.

Benowa Gardens Shopping Centre

Following the opening of the new full-line Coles store at the recently completed Benowa Village Shopping Centre, the Moving Annual Turnover (MAT) of Benowa Gardens decreased by 15.0 per cent in the year ended 31 March 2017. Centre MAT has since recovered to be down 6.6 per cent in the year ended 31 August 2017 compared to the prior corresponding 12-month period.

The centre's occupancy has decreased to 95.5 per cent by income at 30 June 2017 from 97.1 per cent at 31 December 2016 as a result of two tenants vacating.

At 30 June 2017, the centre had four vacancies. A new lease for one of the vacant premises commenced in July 2017 and new leases for two of the other vacancies commenced in September 2017.

The centre's valuation at 30 June 2017 remains unchanged at \$40.7 million. The weighted average lease expiry at 30 June 2017 was 2.6 years by rental income. We have commenced discussions with Coles regarding an extension of their lease.

Stockland Pacific Pines

Due largely to the opening of the new full-line Coles supermarket and Liquorland store in November 2016, Stockland Pacific Pines' MAT was down 6.2 per cent in the 12 months ended 31 August 2017, compared to the prior corresponding 12 months.

The decline in sales at the centre is expected to stabilise following the imminent refurbishment of Woolworths and the installation of shade sails.

As reported previously, two tenants vacated the centre early this year. Another tenant vacated in May 2017 resulting in three premises being vacant and the centre's occupancy falling to 90.3 per cent at 30 June 2017. We are currently in advanced discussions with prospective tenants for these premises.

The valuation of the centre at 30 June 2017 remains unchanged at \$28 million. The weighted average lease expiry was 4.8 years by income.

Tamworth Homespace

We are pleased to report that BCF Australia, a large national tenant representing 7.7 per cent of the aggregate rental income at Tamworth Homespace, has renewed its lease for a further five years from November 2017.

Another four leases representing 14.9 per cent of centre income are due to expire during the financial year ending 30 June 2018. We continue to negotiate with tenants to achieve the best outcome for the centre including a potential tenant remix.

The centre's valuation has increased by \$0.6 million or 3.4 per cent to \$18.1 million at 30 June 2017 as a result of the capitalisation rate firming by 50 basis points to 8.25 per cent. The weighted average lease expiry at 30 June 2017 for the centre was 2.6 years by income.

Unit Registry

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