



Stockland

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



Pacific Pines Town Centre was developed by Stockland as part of a master-planned community, situated in the northern Gold Coast region, near Helensvale. The neighbourhood shopping centre has an open plan style and is anchored by Woolworths plus 12 speciality stores and parking for 355 vehicles.

At 31 December 2016

NTA AT 31
DECEMBER 2016
CENTS PER UNIT

110.1

6 MONTH TOTAL
RETURN
%

10.1

AGGREGATE
PROPERTY
VALUATIONS
\$M

86.2

LOAN TO
VALUATION
RATIO
%

48.0

Highlights

- The Trust provided a total return of 10.1 per cent¹ for the six-month period ended 31 December 2016. The total return reflects distributions totalling 3.7 cents per unit paid during the period and a 6.6 per cent increase in the Net Tangible Assets (NTA) to 110.1 cents per unit primarily as a result of increased property valuations.
- Property valuations undertaken at 31 December 2016 increased by \$2.3 million or 2.7 per cent over the six-month period. The increase in independent property valuations is primarily due to a 25 basis point firming in the capitalisation rates adopted for the Pacific Pines and Tamworth Homespace centres and modest income growth at the Benowa Gardens centre. The Trust's weighted average capitalisation rate has reduced to 7.2 per cent at 31 December 2016 from 7.4 per cent at 30 June 2016 reflecting continued strong demand for these asset classes.
- As a result of the increase in property valuations, the Trust's Loan to Valuation Ratio (LVR) at 31 December 2016 has decreased to 48.0 per cent from 49.3 per cent at 30 June 2016.

Trust performance

The total return of the Trust since inception has increased to 8.7 per cent per annum at 31 December 2016 from 8.1 per cent at 30 June 2016 as a result of the increase in property valuations during the period.

TRUST PERFORMANCE

PERFORMANCE	6 MTHS	12 MTHS	SINCE INCEPTION
Total return ¹	10.1%	14.8%	8.7% p.a.

Debt update

The Trust's borrowings at 31 December 2016 were \$41.4 million, unchanged from the amount drawn at 30 June 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 decreased slightly to 4.1 per cent per annum at 31 December 2016 from 4.2 per cent at 30 June 2016.

DEBT AT 31 DECEMBER 2016

LOAN FACILITY LIMIT	\$43.0M
DRAWINGS	\$41.4M
TOTAL INTEREST RATE	4.1% P.A.
YEARS TO MATURITY	3.0

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

KEY PROPERTY STATISTICS AT 31 DECEMBER 2016

	BENOWA GARDENS SHOPPING CENTRE	PACIFIC PINES TOWN CENTRE	TAMWORTH HOMESPACE
Independent valuation date	31 December 2016	31 December 2016	31 December 2016
Valuation	\$40,700,000	\$28,000,000	\$17,500,000
Valuation rate per square metre	\$7,046	\$5,067	\$1,341
Trust ownership	100%	100%	100%
Cap rate ¹	7.00%	6.25%	8.75%
WALE by rental income ²	3.1	5.1	3.1
Major tenant	Coles	Woolworths	The Good Guys
Major tenant GLA (square metres)	1,960	3,541	2,404 ³
Major tenant lease expiry	April 2022	October 2023	March 2022
Occupancy by rental income ⁴	97.1%	100%	100%

1. The weighted average cap rate for the portfolio is 7.2 per cent.

2. The Weighted Average Lease Expiry (WALE) by rental income for the portfolio is 3.7 years.

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

4. The occupancy by rental income for the portfolio is 98.6 per cent.

Portfolio update

Leasing conditions remain difficult following the opening of two new centres with full-line, latest concept supermarkets in the trade areas of our Benowa Gardens and Pacific Pines centres.

A total of four lease deals were completed during the six months ended 31 December 2016 which represents approximately 4 per cent of the aggregate annual specialty net rental income for the Trust. The Trust's occupancy has increased to 98.6 per cent by income at 31 December 2016 following the letting up of a premises at Benowa Gardens to Burrito Bar.

Benowa Gardens Shopping Centre

Coles Benowa Gardens' sales continue to be adversely impacted by the opening of a Coles supermarket which anchors the newly developed Benowa Village Shopping Centre with 14 specialty stores, located 1.7 kilometres from our centre.

The capitalisation rate adopted for Benowa Gardens remains unchanged since the last valuation partly due to the increase in competition. However, modest income growth arising from fixed rental reviews during the period has resulted in a \$0.7 million or 1.8 per cent increase in the centre's valuation to \$40.7 million at 31 December 2016. The valuation assumes that nil turnover rent is received from Coles Benowa Gardens as a result of the decreased sales at its Benowa Gardens store.

The centre's occupancy has increased to 97.1 per cent by income at 31 December 2016 from 94.5 per cent at 30 June 2016 as a result of the new lease with Burrito Bar. The centre's weighted average lease expiry at 31 December 2016 was 3.1 years by income.

Pacific Pines Town Centre

Specialty and supermarket sales at Pacific Pines Town Centre have been adversely impacted by the opening in November 2016 of the new Coles Supermarket and Liquorland approximately three kilometres from our centre.

The valuation of the Pacific Pines centre has increased by \$1 million or 1.8 per cent to \$28 million at 31 December 2016 primarily due to further firming of the adopted capitalisation rate by 25 basis points to 6.25 per cent. The valuation assumes that nil turnover rent will be received from Woolworths Pacific Pines as a result of the increased competition from the new Coles store.

Whilst the centre was fully occupied at 31 December 2016, one retailer vacated the centre on 31 January 2017 at the expiry of its lease and another vacated in February 2017 at the expiry of its lease. The existing medical centre will relocate to larger premises from May 2017. We are actively canvassing potential tenants for these vacancies. At 31 December 2016, the centre had a weighted average lease expiry of 5.1 years by income.

Tamworth Homespace

Tamworth Homespace is fully occupied. However, we continue to seek a tenant for 600 square metres of the 2,400 square metres currently occupied by The Good Guys rent free until a tenant is found. The Good Guys will downsize to a 1,800 square metre store when this occurs.

The centre's valuation has increased by \$0.6 million or 3.6 per cent to \$17.5 million at 31 December 2016 as a result of the capitalisation rate adopted for the centre firming by 25 basis points to 8.75 per cent. The centre's weighted average lease expiry at 31 December 2016 was 3.1 years by income.

We are pleased to report that The Good Guys, the centre's major tenant, has exercised its option to extend its lease for a further five years, expiring March 2022.

Unit Registry

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