Managing Director's remarks

AGM | Tuesday 29 October 2013

Good afternoon ladies and gentlemen.

It is a privilege to join you today to present my first AGM address as Managing Director and CEO of Stockland.

I was honoured to be invited by the Board last December to lead the management team of this company that I have respected and followed closely for over 20 years. And my experiences since joining in January of this year have confirmed my long-held views. Having visited dozens of our assets and the people who operate them, I have seen first-hand what sets our business apart – quality assets, a strong and ethical corporate culture and people with a passion for creating great places to live, shop and work.

Clearly the business has faced performance headwinds in recent years. I am, however, confident that we have re-established strong foundations from which to deliver growing and predictable returns for our securityholders.

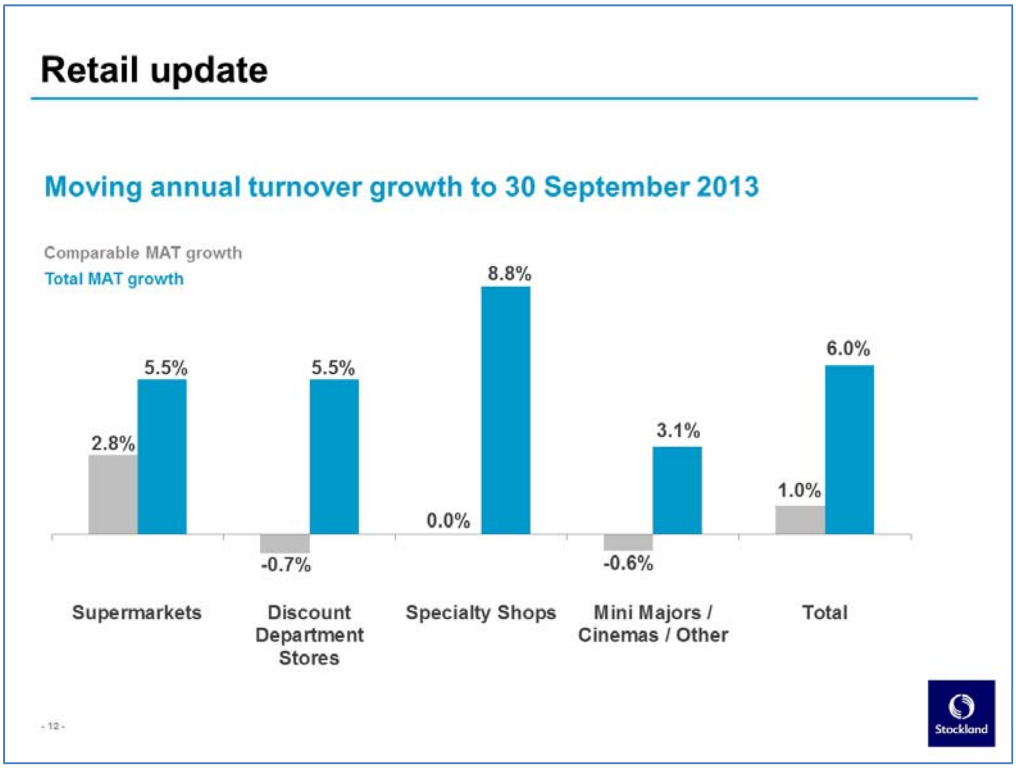
In order to achieve this one of my first priorities was to conduct a detailed strategic review and to put our revised plan quickly into action. In defining our strategy we set a clear objective in relation to our securityholders: to deliver earnings per share growth and total risk-adjusted returns above the sector average.

To achieve this we have identified optimal target weightings for each asset class in our portfolio to guide our allocation of capital within a disciplined risk/return framework. We are executing plans to maximise returns from our existing assets, and we have restructured the business to improve our efficiency. Unchanged in the strategy is a firm commitment to prudently managing our balance sheet, retaining our A- credit rating and managing our gearing within our target range, ensuring we are able to fund our growth plans.

Complementing this overarching strategy, are clear plans for each of our operating businesses. I would like to provide you with a brief update on how each of these businesses is performing and our key focus areas for the year ahead.
Turning first to our largest business, Commercial Property.

Our Commercial Property business accounts for around 70 per cent of our assets, and it continues to deliver a solid and reliable stream of recurring income for the Group.

Shopping centres make up the largest part of our Commercial Property portfolio. I'm pleased to report we achieved a five per cent increase in our Retail business net operating income in FY13, thanks to the contribution of our newly developed centres and the particularly resilient nature of the assets in our portfolio. For some years we have pursued a retail strategy focused on providing a relatively high proportion of non-discretionary and service-based retailers in our centres, and have maintained sustainable tenant occupancy costs. This approach has proven effective, even during periods of subdued retail spending like we are currently experiencing.



In the first quarter of FY14 the general softness in consumer spending has clearly persisted. At 30 September total moving annual turnover growth in our centres was 6%, largely due to the contribution of recently redeveloped centres coming on line. Moving annual turnover growth in comparable centres was 1% with supermarkets the strongest performers reflecting the resilience of non-discretionary spending.

The key to achieving ongoing growth in our retail business is our targeted and disciplined approach to redevelopment. We have a strong pipeline of centres in our portfolio which are well-suited to being upgraded and expanded. We have recently commenced our next two projects: a $116 million redevelopment at Hervey Bay in Queensland and a $222 million upgrade of Stockland Wetherill Park in NSW. These are two of a number of projects earmarked for redevelopment in the medium term and are expected to deliver an average total return of 12 to 14 per cent and incremental stabilised yields of between 7 and 8 per cent[1]. We regularly assess this pipeline to ensure we invest in the right assets at the right time to optimise our returns.

Our portfolio of Office assets is around $1.6 billion, or 20% of our Commercial Property portfolio. In FY13, by tightly managing our office assets we lifted our comparable net operating income, which measures like-for-like assets, by two per cent and improved occupancy and weighted average lease expiry.
Our strategy is to optimise the performance of our assets to maximise returns, while lowering our total weighting to Office when we view market conditions as being right.

Our strategic review confirmed that industrial assets are an important part of our diversified portfolio and accordingly we intend to grow our exposure to this sector over time. We are optimising the performance of our existing assets and assessing growth opportunities within and outside our existing portfolio.

In FY13 net operating income in our Industrial business decreased 18 per cent from the previous year, mainly due to asset sales in FY12 and a high number of leases expiring in FY13. Pleasingly we executed leases on 288,000 square metres of space

[1] Pre-IFRS

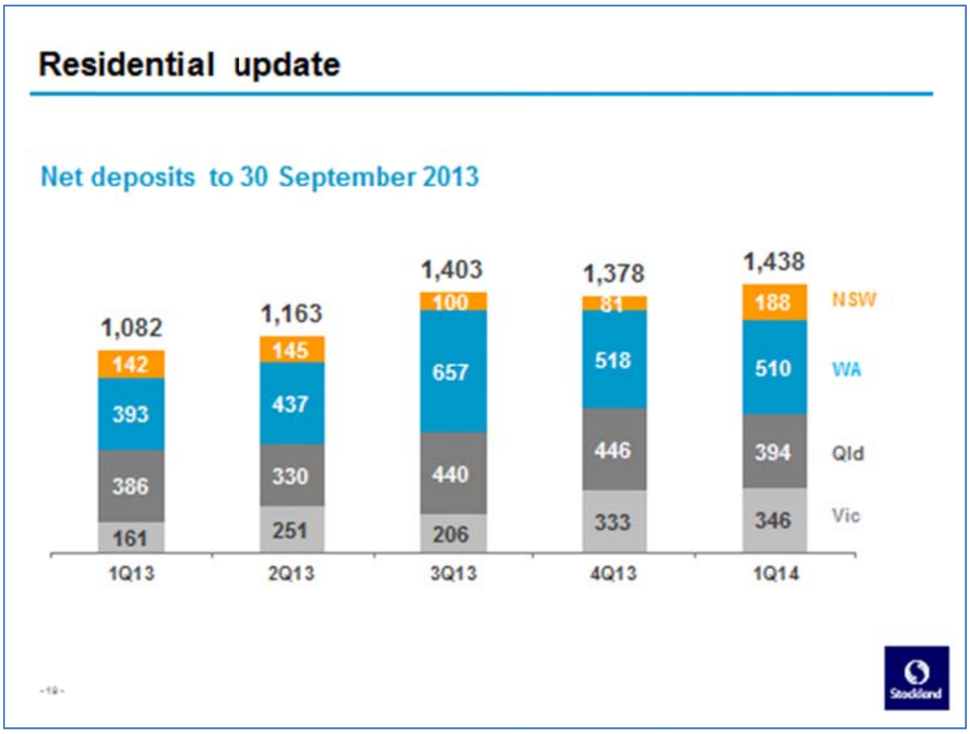
during the year, and a further 76,000 square metres in the first quarter. This means in the first quarter alone we have leased around 8% of the lettable area in the portfolio, positioning it well for income growth in FY14.

Turning now to our Residential business, which has received considerable focus over the past year. As you know, the performance of the Residential business in FY13 was significantly impacted by market softness which affected both volume and prices and led to impairment of non-core land holdings.

The profit decline in this business in FY13 also reflected the shift in sales mix we experienced, with a lower proportion of our sales coming from Victoria where we have some of our higher margin projects. In addition we adopted a more conservative approach to interest capitalisation which further impacted profit but in the medium-term should enable us to deliver more consistent returns over time. Our aim is always to manage our business to create growing value for securityholders over the long term.

Overall, Residential operating profit declined to $60 million in FY13, with the change in interest approach I just described accounting for $34 million of the decrease.

We have acted decisively to ensure this result is not repeated. We are executing a plan to make our Residential business more resilient and profitable in the future. We are progressing the sale of impaired projects and bringing higher margin projects to market. We have restructured our business to reduce costs and identified opportunities to apply our project management and procurement capabilities to greater advantage. We have also identified Residential projects in our portfolio where we can increase revenue and broaden market reach by expanding our medium density offering.

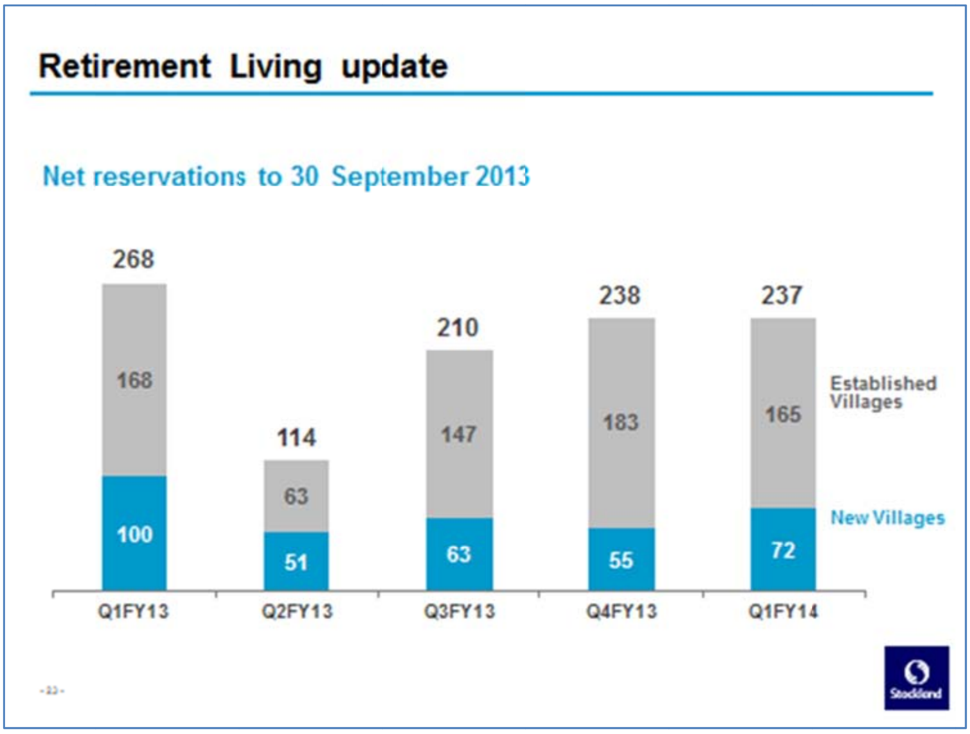


And I am pleased to report that there is now clear evidence that the new housing market is improving. The uplift in volumes, which we first noted in the third quarter of last year, has been sustained. In the first quarter of FY14 we have achieved the highest number of deposits for three years. While this is definitely a positive sign, it is important to remember that in the short to medium term, profits in our Residential business will be moderated by the low margin and impaired projects we continue to trade through.

In the first quarter, taking advantage of the improved residential market outlook, we have also made progress selling our non-core projects and bringing key new projects to market. We have now sold two of the 15 projects earmarked for wholesale disposal, with another two exchanged and a number in due diligence.

Our largest ever project in NSW, Willowdale in south-west Sydney, launched last month with the first three tranches of lots selling out each day they were released. Our community at Marsden Park in north-west Sydney is also on track to launch in 2014 following its rezoning earlier this month, and our newest Western Australian project Calleya, in south-west Perth, is progressing well with earthworks set to commence next month.

Finally, we turn to our Retirement Living business. From time to time this business has been misunderstood so I would like to be very clear about our strategy for it. Relatively speaking, this is a business in its infancy. We are strong believers in the retirement living market – the demographic fundamentals and undersupply are clear. However, we must demonstrate that the business can mature to deliver acceptable cash returns to complement the sound total returns. We have a strategy and a timeline for this and we are monitoring our progress closely.



In FY13 the Retirement Living business continued to deliver against its strategy with a solid result despite the soft residential market. Operating profit was up six per cent on the previous year and return on assets also rose, thanks to a record number of settlements. So far this year we have continued to see steady demand with net reservations remaining around the same level as the previous quarter.
Our strategy is to continue to grow returns by improving scale and efficiency. Our ability to grow is largely in our control, with a strong development pipeline at sites we already own, efficiency improvements well in train, and a commitment to maintain consistently high customer satisfaction.

I trust this update has conveyed our firm focus on delivering reliable and growing returns and the clear plan we are following to achieve this.

Having assessed the business and put our revised strategy into action, I am confident we will see a steady improvement in Stockland's earnings from FY14 as new Retail, Residential and Retirement Living projects begin to contribute, and as recent Industrial letting, rental growth and cost reduction initiatives begin to come through.

I do caution, however, that while we are seeing improvement in the residential market, Residential earnings will be constrained as we continue to trade through impaired and low margin projects. It will also take some time to see the full benefits of our new strategic priorities, particularly in Industrial and medium density housing development.

Taking all this into account, I reconfirm our expectation for FY14 earnings per share of four to six per cent above FY13, assuming there is no material decline in market conditions. As usual, there will be a profit skew to the second half, driven primarily by the timing of residential settlements.

I am confident that the strategic direction we have set, the new leadership appointments we have made and the actions we have taken this year will position us well to deliver sustainable, competitive and growing returns into the future. In this way, we will fulfil our vision to be a great Australian diversified property company that delivers value for all stakeholders and helps create a better way to live.

Thank you.