ASX/Media Release

Stockland

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STOCKLAND PROVIDES 3Q20 OPERATIONAL UPDATE AND RESPONSE TO COVID-19

Stockland (ASX: SGP) has today released a market update for 3Q20 (**Third Quarter**).

Managing Director and CEO, Mark Steinert, said: "After a promising start to the year, with strong residential sales and settlements in January and February, positive comparable sales growth in Retail Town Centres, and ongoing high occupancy in the Workplace and Logistics portfolio, the impact of COVID-19 on the economy since early March has presented challenges across most areas of our business."

We have tackled the COVID-19 challenges proactively and our response to the pandemic has to date included:

- We have prioritised the safety and wellbeing of our tenants, customers, residents, contractors, and our engaged and committed team;
- We have implemented best practice safety management and hygiene standards across the business. We have made a range of process changes across our assets to deliver this outcome including the implementation of social distancing protocols, appointment-only visits to residential sales centres, comprehensive safety and visitor protocols for our Retirement Living communities and deep cleaning of our Retail Town Centres;
- We were able to keep our Retail Town Centres open, demonstrating our commitment to the safe provision of essential services to Australian communities including access to supermarkets, fresh food, banking, medical, as well as post office, fuel, discount department stores and take-away food;
- We have provided free space for temporary COVID-19 testing centres in several of our Retail Town Centres as a community service;
- We have increased communication with our customers and our people to work together with them to successfully navigate this crisis;
- We have actively reduced or deferred variable and non-critical expenses which is helping to cover COVID-19 specific costs like additional hygiene measures. This includes placing a freeze on remuneration, training and recruitment and implemented other cost saving measures;
- Our Board and executive team have taken a 20 per cent voluntary reduction in directors fees and fixed salaries respectively for a two month period commencing in May 2020 and subject to further review in June 2020;
- To reduce or defer costs in a sustainable way that minimises the impact of jobs while retaining focus on delivering all operational activities and Group priorities, we have implemented an

accelerated leave program that will have most of our people take 10 days of leave for the period from 1 April 2020 to 30 June 2020;
- Our people create the future for our business, and we appreciate their ongoing commitment to leading the business through this crisis. To support them, we have stepped up to meet the challenges of this pandemic by adapting our day to day activities, to include working from home, as well as enhancing the safety of our teams on the front line of our business;
- We boosted the liquidity of the business using short term and long term debt issuances, from $850 million in February 2020 to around $1.6 billion at the end April 2020 to provide certainty of funding and capacity to take opportunities during the recovery;
- We commenced detailed discussions with Commercial Property tenants affected by the COVID-19 pandemic following the principles set out in the Federal Government's Commercial Code of Conduct (**Code**) which was issued in April 2020. The Code defines qualifying tenants who are eligible for rent relief as small to medium-sized enterprises (**SME**), those with an annual turnover of up to $50 million, suffering financial stress or hardship as a result of the COVID-19 pandemic and are accessing the Commonwealth Government's JobKeeper program;
- On a case by case basis we are discussing assistance packages necessary to protect our valuable business relationships into the future. SME tenants are estimated to comprise around 30 per cent of rental income in the combined Commercial Property portfolio;
- We are working through the implications of the latest guidance included in National Cabinet's Roadmap to a COVIDSafe Australia in the coming weeks; and
- As announced on 23 March 2020, we have withdrawn our funds from operations and distribution guidance for the 12 months to 30 June 2020 and all other forward-looking views given the heightened and continuing uncertainty surrounding the COVID-19 pandemic.

The Third Quarter results do not fully reflect the impact of the COVID-19 pandemic on our business.

<u>3Q20 Summary</u>

The Third Quarter saw resilience in Residential and Retirement Living Communities sales and settlements notwithstanding these challenging times. Social distancing regulations, the impact of visitor protocols for villages and increased customer reluctance to inspect during this time, combined to reduce activity in our Communities business in March 2020.

The Workplace and Logistics portfolio had ongoing high occupancy.

Retail Town Centres had experienced strong portfolio performance in January 2020 and February 2020, however from the middle of March 2020, this business felt the greatest impact from the COVID-19 pandemic including reduced foot traffic, non-essential services store closures and high demand for essential services. Throughout this rapidly fluctuating situation, we have worked closely with our tenants to implement the changes necessary to adapt to this evolving environment.

Our retail portfolio is positioned relatively well, with approximately 70 per cent of moving annual turnover (**MAT**) skewed towards low discretionary and non-discretionary tenants and with exposure to neighbourhood and sub-regional malls of around 41 per cent of the portfolio by asset value.

<u>Residential Communities</u>

The business was performing well during January 2020 and February 2020, with strong enquiry levels and net sales continuing to increase, however the impact of the COVID-19 pandemic and associated restrictions contributed to a material decline in net sales to 137 lots in April 2020 reflecting lower March enquiries. We have 3,853 contracts on hand as at 30 April 2020.

After a decline in late-March 2020 to early April 2020, new enquiry levels have recovered, in line with pre-COVID-19 levels, with our sales offices fully operational in WA, NSW and QLD over the last week with the easing of government restrictions.

Settlements are completing within similar timeframes to pre-COVID-19 levels and the default rate in April 2020 is reasonably low, at around 4 per cent, only slightly above our long term average after having risen in March 2020.

As the creator of some of the country's most liveable and affordable masterplanned communities, we have a resilient customer base and continue to sell almost 80 per cent of our homes and lots to owner-occupiers, with first home buyers representing around half our sales. These segments are the most likely to benefit from State and Federal Government stimulus.

We are well positioned to pivot quickly to respond to improving customer sentiment and release more stock at our communities, which are well-located near schools and local services, and provide open space, parks and lifestyle for families across Australia.

The current low interest rate environment, positive credit conditions and government stimulus, particularly the JobKeeper subsidy, and reduced supply are expected to support the market recovery. However, despite early signs of improvement, it is still too early to identify clear trends and we remain cautious about the shape and speed of recovery of the market.

Retirement Living

Our Retirement Living business achieved 225 net reservations for the Third Quarter which was the strongest result for established sales in more than two years. We expect sales to increase over time, supported by the continued growth in this demographic and their desire for safe and connected community living in the village style environment.

In 3Q20, we completed 207 settlements, although volumes are starting to be impacted by broader market dynamics including longer timeframes for customers to sell their existing homes.

Although April 2020 net reservations were reduced as older Australians were impacted the most by government restrictions, enquiry and sales are beginning to improve in early May 2020 as restrictions are eased.

Commercial Property – Workplace and Logistics

The Logistics portfolio had a high occupancy of 98.9% and a weighted average lease expiry of 5.2 years at 31 March 2020. In December 2019, the $123 million M_Park Stage 1 development application was approved at Macquarie Park (NSW) and is expected to commence in 1H21. Tenant enquiry has been strong reflecting the quality of the development.

The Workplace and Logistics business has been less affected by the COVID-19 restrictions. SMEs are estimated to comprise around 25 per cent of the Workplace and Logistics portfolio by rental income and abatement requests received to date from this tenant group are being reviewed on a case by case basis. As Australia recovers from the impact of COVID-19, there is potential for lower economic activity to dampen demand in the logistics sector. Unemployment rates and continuing flexible work arrangements will challenge the workplace sector. We will monitor both challenges throughout the recovery phase.

The $4.4 billion Workplace and Logistics development pipeline continues to progress with the preparatory work underway requiring minimal capital at this time due to early stages of planning for most of our major projects. We will continue to carefully assess market conditions before commencing new developments.

Commercial Property – Retail Town Centres

Prior to the impact of the COVID-19 pandemic on the Retail Town Centre portfolio, the business was demonstrating the success of our rebasing and remixing strategy with strong results achieved in January 2020 and February 2020. By the end of the Third Quarter, the portfolio delivered total MAT growth of 5.2 per cent, largely driven by supermarket and DDS activity in the early phase of the pandemic, and total speciality MAT growth of 2.0 per cent. The specialty occupancy cost ratio was stable at 15.3 per cent.

Discussions with tenants impacted by COVID-19 continued in April 2020 on a case by case basis and this process will take time to complete. Foot traffic was down 40 per cent on pre-COVID-19 levels in mid-April 2020 however, over 60 per cent of stores by rental income remained trading through March and April. Both measures have since improved in line with the easing of government restrictions with around 75 per cent of stores by rental income now trading. SME tenants are estimated to comprise around 35 per cent of rental income.

Similar to the residential market, it is still too early to identify clear trends and we remain cautious about the shape and speed of recovery of the market.

Liquidity

On 14 April 2020, we announced an increase in available liquidity from $850 million to around $1.3 billion at 9 April 2020. Since that date, we have confirmed $250 million of additional short term bank facilities, increasing the available liquidity to approximately $1.6 billion at 30 April 2020. The combination of this strong liquidity position, our access to short and long term debt markets and ongoing cash discipline, positions us well to navigate the current market disruption and into the recovery phase.

Summary

For the full year to 30 June 2020, the outlook remains uncertain and funds from operations and distribution guidance remains withdrawn until further notice.

Managing Director and CEO, Mark Steinert, said: “Our purpose is to create places that enable a better way to live every day, and, since 1952 we have been building places to enhance communities. As we emerge from this experience, more than ever this purpose remains relevant and we will focus our energies on supporting our customers, tenants, residents, and our people. We believe the new environment will create opportunities where the strength of the Stockland brand can be leveraged for the benefit of all our stakeholders.

“We remain focused on creating Australia’s most liveable and sustainable communities and we are proactively ensuring that Stockland can restore its business activities safely and efficiently as restrictions are eased,” said Mr Steinert.

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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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