



Stockland

# Acquisition of Australian Retirement Communities (ARC)

9 February 2007



# Event

- ◆ Stockland has made a key strategic acquisition, accelerating our presence in the Retirement Living sector
- ◆ Acquired 100% of Australian Retirement Communities (ARC) Retirement Living business
- ◆ Acquisition price of \$329 million, payable over 18 months
- ◆ Earnings neutral in FY07 and accretive from FY08 onwards

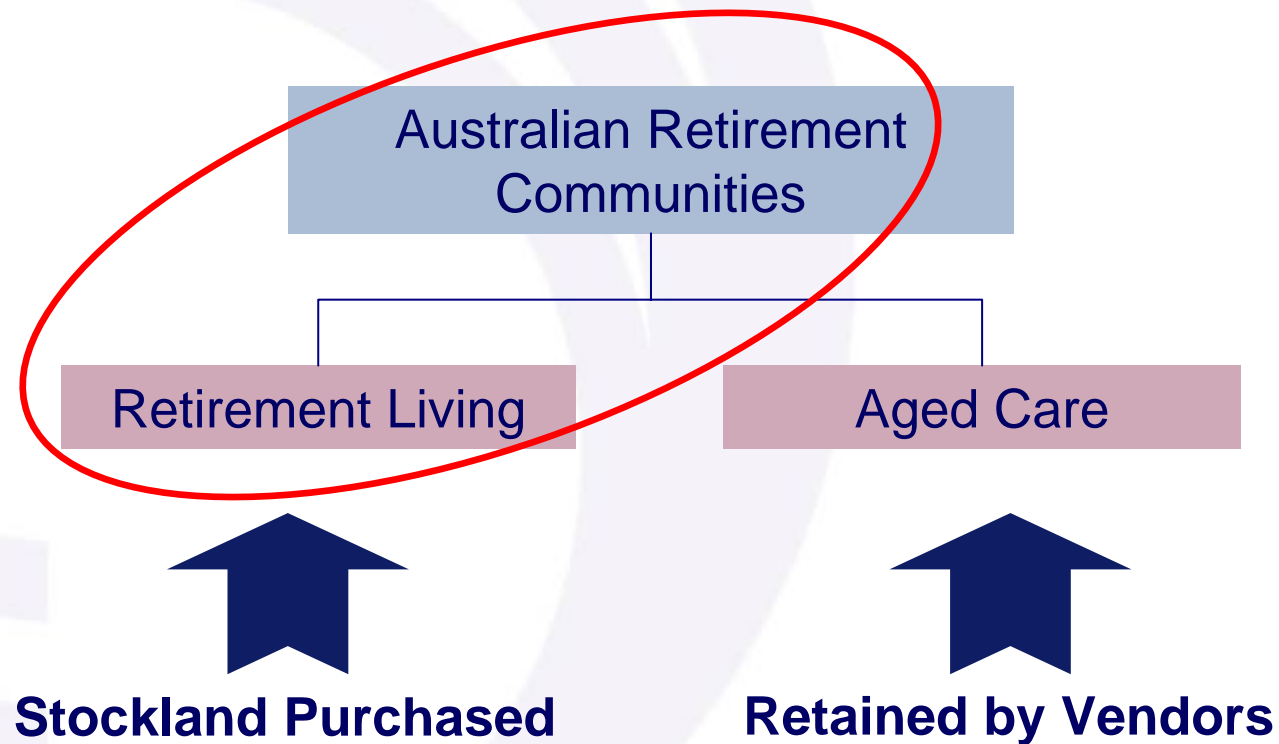
# Outline

- ◆ ARC Retirement Village Business
- ◆ Strategic Rationale
- ◆ Financial Impact
- ◆ Stockland Retirement Living Moving Forward



# ARC Retirement Village Business

- ◆ Has a long, successful track record within this sector (established in 1972)
- ◆ Is one of the top 5 participants in the Retirement Village sector



# ARC Retirement Village Business

- ◆ Consists of 17 existing villages, 3 villages under construction and a pipeline of 6 villages to be developed

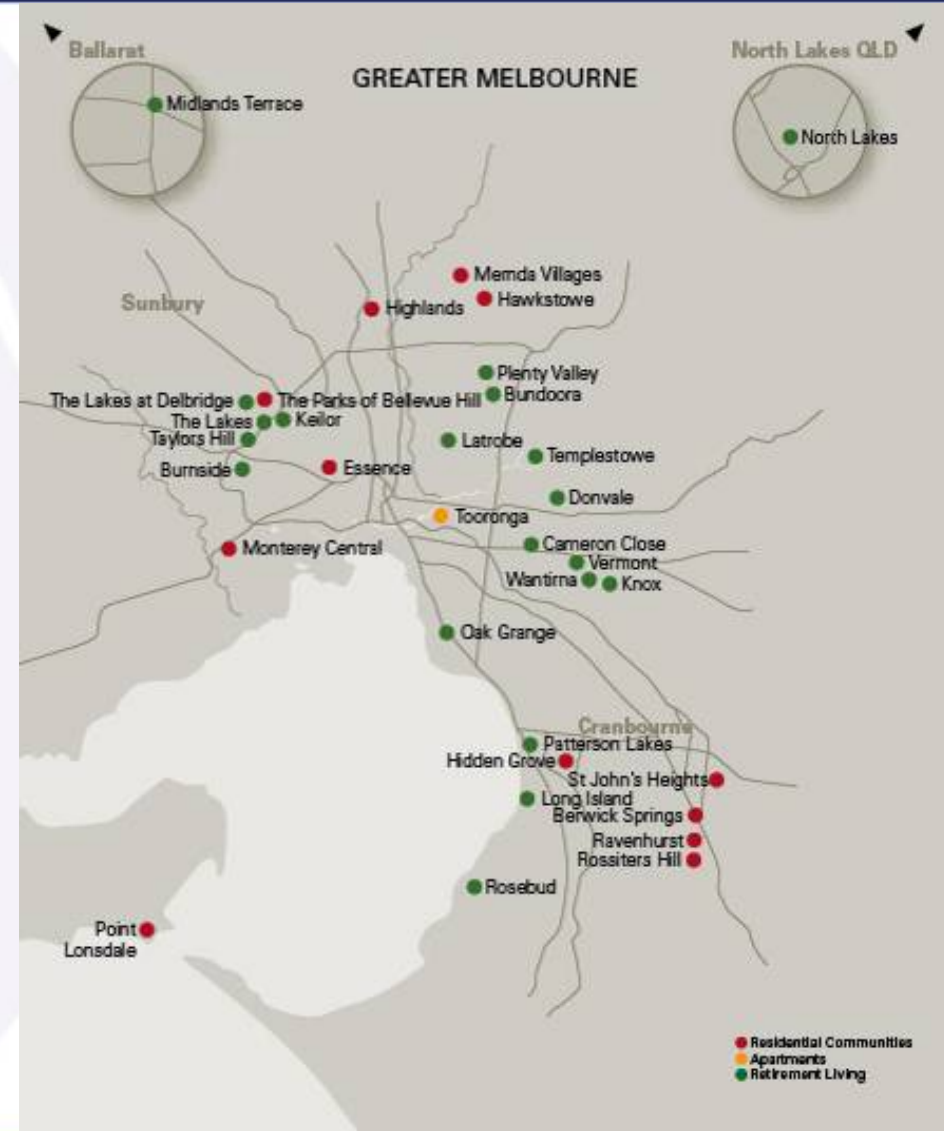
17 Established Villages	3 Villages Under Construction	6 Future Villages
<ul style="list-style-type: none"> <li>• 2,850 units / homes</li> </ul>	<ul style="list-style-type: none"> <li>• 560 units / homes</li> </ul>	<ul style="list-style-type: none"> <li>• 825 units / homes</li> </ul>
<ul style="list-style-type: none"> <li>• 98.5% occupancy</li> </ul>	<ul style="list-style-type: none"> <li>• 85% complete</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic locations</li> </ul>
<ul style="list-style-type: none"> <li>• 12 years average tenure</li> </ul>	<ul style="list-style-type: none"> <li>• Strong sales pipeline</li> </ul>	<ul style="list-style-type: none"> <li>• Strong demographic</li> </ul>
<ul style="list-style-type: none"> <li>• 8.6% average annual turnover</li> </ul>		

- ◆ Strong concentration / market share in the Victorian market
- ◆ In-house construction (not 3<sup>rd</sup> party)



# ARC Retirement Village Business

- ◆ Largest operator in the Victoria market
- ◆ Village locations are complementary to our Residential Communities portfolio
- ◆ Valuation Methodology
  - Present value of Deferred Management Fees (DMF) in a range of 10% - 14% discount rate
  - Conservative annual growth rate assumptions in a range of 1% - 4%
  - Development returns in an IRR range of 15% - 20%



# Strategic rationale

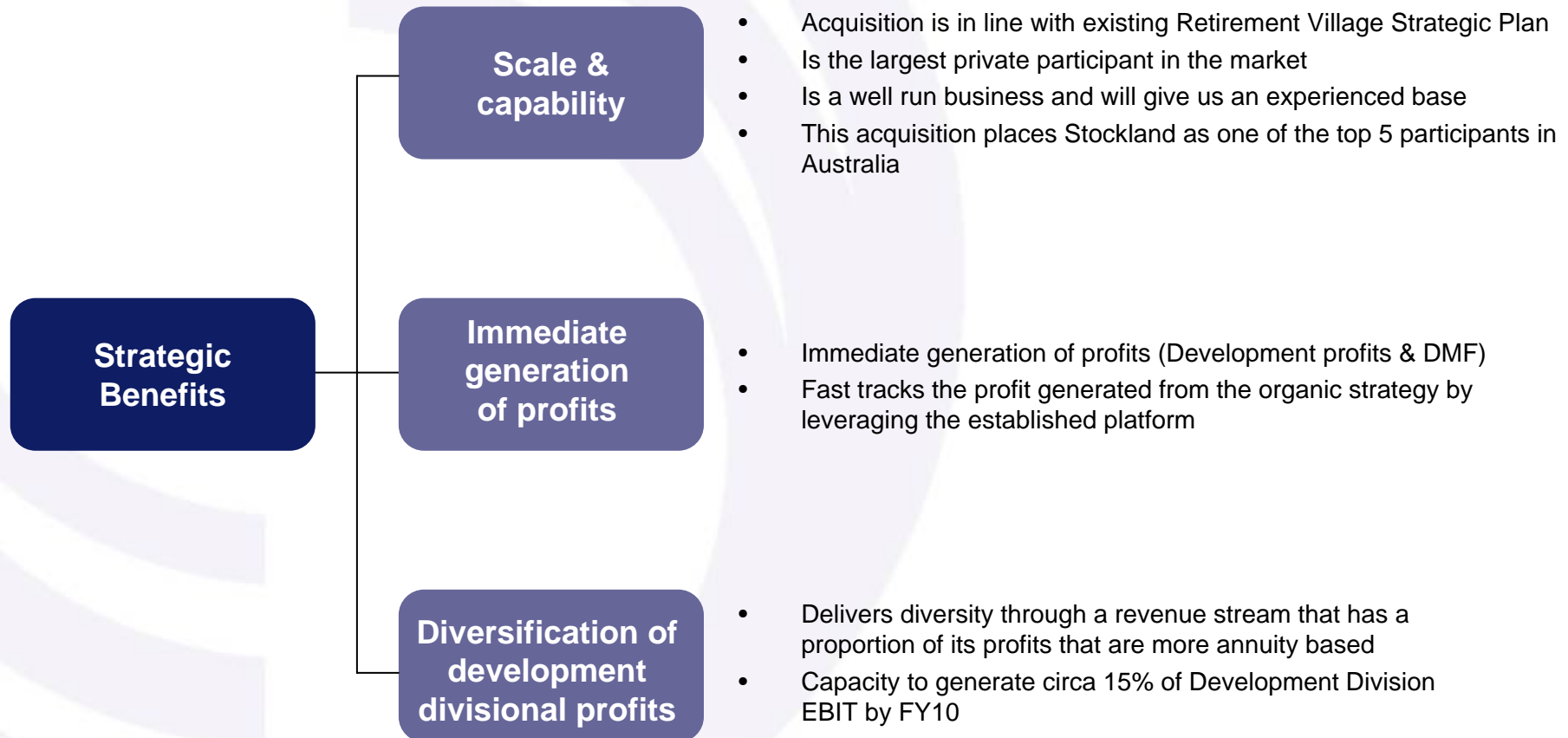
## Consistent with Strategy

- ◆ Investment into the Retirement Living sector is consistent with our strategy to diversify our earnings base
  - Different demand drivers to traditional residential market
  - Seek recurring income streams
  - Complement our existing activities
  
- ◆ ARC acquisition is consistent with our Retirement Living strategy adopted 18 months ago:
  - Market entry strategy was to focus on unlocking the 3,000+ unit sites within our Residential Communities portfolio
  - Seek acquisitions only when they represented value
  - No desire to enter the aged care market – preference was to form strategic alliances



# Strategic rationale

## Strategic Benefits to Stockland



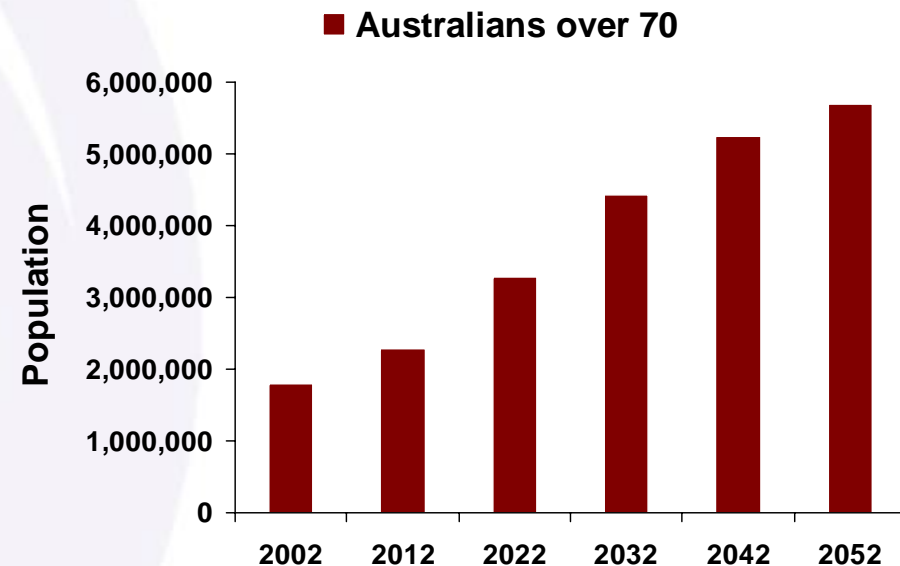


# Strategic rationale

## Strength of the Retirement Living Sector

### 1. Growth Sector

- ◆ Retirement segment 70+ has approximately 1.9 million people
- ◆ As the baby boomers move into this segment the 70+ population will grow by 122% in the next 25 years
- ◆ Currently only 4% move into Retirement Villages
- ◆ In addition, if the adoption rate for Retirement Villages moves towards international counterparts (circa 8%), then this will substantially increase this segment



Source: Stockland / ABS

# Strategic rationale

## 2. Market is Fragmented

- ◆ Despite recent consolidation in the sector, the top five operators control less than 35% of the Retirement Living sector
- ◆ There is no dominant national brand in this sector

## 3. Changing Needs Will Create Further Opportunities

- ◆ Wealthier aging baby boomers will create new segments
- ◆ Currently, the market is product driven
- ◆ As it matures, we will see further extension into other areas

# Financial impact

## ◆ Profit Recognition

- Development return – when new unit/home is sold
- DMF creation – when unit / home is sold
- DMF revaluation – as residents move through their tenure

## ◆ Financial Returns

- Neutral impact on FY07 earnings, Accretive FY08 onwards

## ◆ Strategic weightings

- Post acquisition asset and EBIT mix will remain within our strategic weightings

## ◆ Funding

- An equity placement will be made for approximately \$300 million
- Balance from existing debt facilities
- Gearing to remain in our target range of 25% - 35%

# Stockland Retirement Living Moving Forward

- ◆ Smoothly integrate ARC into our business
- ◆ Roll out the development pipeline (of the combined businesses)
  - 560 units at various phases of construction (delivered over 12-18 months)
  - Anticipate commencing a further 150 units in FY08
  - Build up our annual development program
- ◆ Due to the established villages and combined development pipelines, Stockland will be one of the largest Retirement Living operators in Australia
- ◆ Continue to explore opportunities for growth

# Summary

- ◆ **In line with our strategy**
- ◆ **Great strategic acquisition**
- ◆ **Earnings accretive**





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# Annexures





# Annexure

Existing Retirement Villages	Location	Total	Financial Year of Completion	Future Retirement Villages	Location	Total
Bundoora	Bundoora, VIC	199	2005	North Lakes - Under Con	Mango Hill, QLD	163
Burnside	Burnside, VIC	255	2004	Taylor's Hill - Under Con	Taylor's Hill, VIC	178
Cameron Close	Burwood, VIC	187	2000	Plenty Valley - Under Con	Epping, VIC	219
Delbridge	Sydenham, VIC	29	2003	Bundoora Ext - Planned	Bundoora, VIC	40
Donvale	Donvale, VIC	142	1993	Dohles Rock Rd - Planned	Murrumba Downs, QLD	175
Keilor	Keilor, VIC	188	1997	Hillside - Planned	Hillside, VIC	173
Knox	Wantirna South, VIC	204	1979	Overton Lea - Planned	Sydenham, VIC	25
Latrobe	Reservoir, VIC	249	1990	Gowanbrae - Planned	Gowanbrae, VIC	200
Long Island	Frankston, VIC	158	1988	South Morang - Planned	South Morang, VIC	212
Midlands Terrace	North Ballarat, VIC	89	1977			
North Lakes	Mango Hill, QLD	92	2006			
Oak Grange	Brighton East, VIC	110	1985			
Patterson Lakes	Patterson Lakes, VIC	207	1981			
Rosebud	Rosebud, VIC	103	1982			
Taylor's Lakes	Taylor's Lakes, VIC	171	2001			
Taylor's Hill	Taylor's Hill, VIC	22	2006			
Templestowe	Templestowe, VIC	151	1984			
Vermont	Vermont South, VIC	125	1983			
Wantirna	Wantirna, VIC	177	1987			
<b>Total</b>		<b>2,858</b>		<b>Total</b>		<b>1,385</b>

# Disclaimer

## **Corporation/ Responsible Entity**

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