



Waterside, NSW



Stockland

## Asia / Europe Roadshow

November / December 2011

# Our Vision, Strategy and Competitive Advantages

## Our Vision

- To be a trusted partner with government to deliver vibrant and sustainable communities, retail centres and social hubs
- To deliver our customers 'a better way to live'
- To be Australia's preeminent greenfield community developer

## Our Strategy

- Create market leading capabilities for the development and management of Residential Communities, Retirement Villages and Retail centres across Australia
- Where possible, to bring all three businesses together in major projects under one brand
- Work with government for the provision of early infrastructure (transport, education, jobs) to embed community well-being

## Our Competitive Advantages

- Faster speed to market by building trust with key approval authorities and other stakeholders
- Higher Residential and Retirement Living sales rates and prices by putting infrastructure on the ground ahead of our competitors (seeing is believing for our customers)
- Higher occupancy in our Retail centres through our retailer engagement strategy, focus on day-to-day convenience and by not over-building
- Greater asset buying power by using our strong capital position to give vendors financial certainty
- Economies of scale and cost efficiency

# How do we measure success?

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## Target financial outcomes

- 60%-80% of group earnings from recurring rents and deferred management fees
- 20%-40% of group earnings from development profits
- High visibility of future development profits by controlling an extensive land bank with efficient use of capital
- Average 5%-6% through the cycle EPS growth from a combination of sustainable rental growth and higher growth development profits
- Funded by conservative balance sheet with gearing (D/TTA) <25% while global credit markets remain volatile

## Target non-financial outcomes

- High employee engagement and low employee turnover
- High customer satisfaction ratings
- Global leadership in sustainability

# Business update

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## Residential market conditions

- Too early to determine benefits from 25 bps interest rate cut
- Positive Residential sales momentum has continued through October and November:
  - First Home Buyers are the most active segment - will benefit most from interest rate cut
  - Affordable product in strong demand

## Commercial Property asset sales

- Demand remains strong for quality office and industrial assets:
  - Disposed of \$625m to date in FY12
  - We will continue to pursue selective disposals to fund current share buyback and keep debt low

## Share Buyback

- Bought 60.6 million shares (2.6% of total issued) at VWAP of \$2.94

## FY12 group earnings

- Residential profits will be skewed more than usual to the second half due to:
  - Soft conditions in July and August
- Still expect FY12 EPS to be around the same as FY11 (excluding the impact of the buy-back)





Highlands, Vic



Stockland

# Residential

# Stockland is the leading Residential Community developer in Australia



- **We consistently deliver strong returns**
  - Delivering record EBIT in FY11
  - In FY11 sold five times as many lots in our active corridors as the next competitor
  - High RONFE (return on net funds employed)
- **We have a unique, diversified portfolio**
  - 73 communities across four States
  - More than 90,000 lots
  - End market value approximately \$24bn
- **We are well positioned for significant growth**
  - We expect to launch 16 new projects over the next two years
  - Our low cost, long-term land bank secures future growth and returns
  - A proven strategy, which opens opportunities for further growth



# Our strategy remains to deliver affordable, high-quality residential communities for middle Australia

## Our aim

- To be Australia's leading greenfield community developer
- To be a trusted partner with government to deliver vibrant and sustainable residential communities
- To deliver our customers 'a better way to live'

## Our strategy

- Focus on large scale greenfield projects with speed to market
- Target high growth corridors for improved market reach and geographic diversity
- Focus on customer engagement, product and community creation to drive competitive advantage, supported with an active stakeholder engagement platform
- Leverage 3-R strategy to deliver better community amenity and extract financial synergies

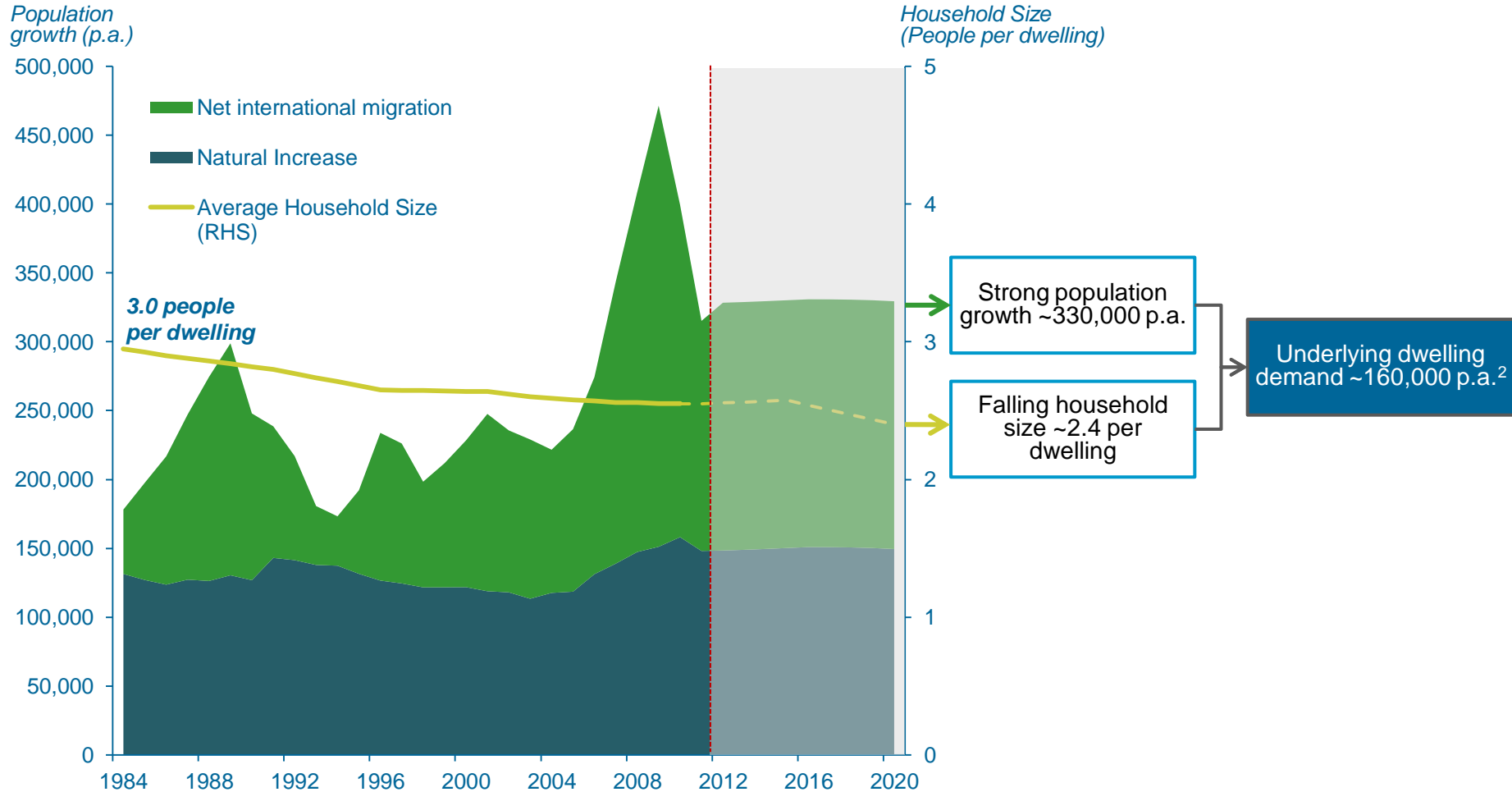
## Our competitive advantages

- Proven ability to identify and acquire quality land
- Deep customer insight
- A targeted affordable product development platform
- Dedicated and meaningful community development initiatives
- Strong government and community relationships

## Our measures of success

- Acquisition hurdles of >20% IRR, 25% - 30% EBIT margins
- Target market share of 25%+ in active corridors

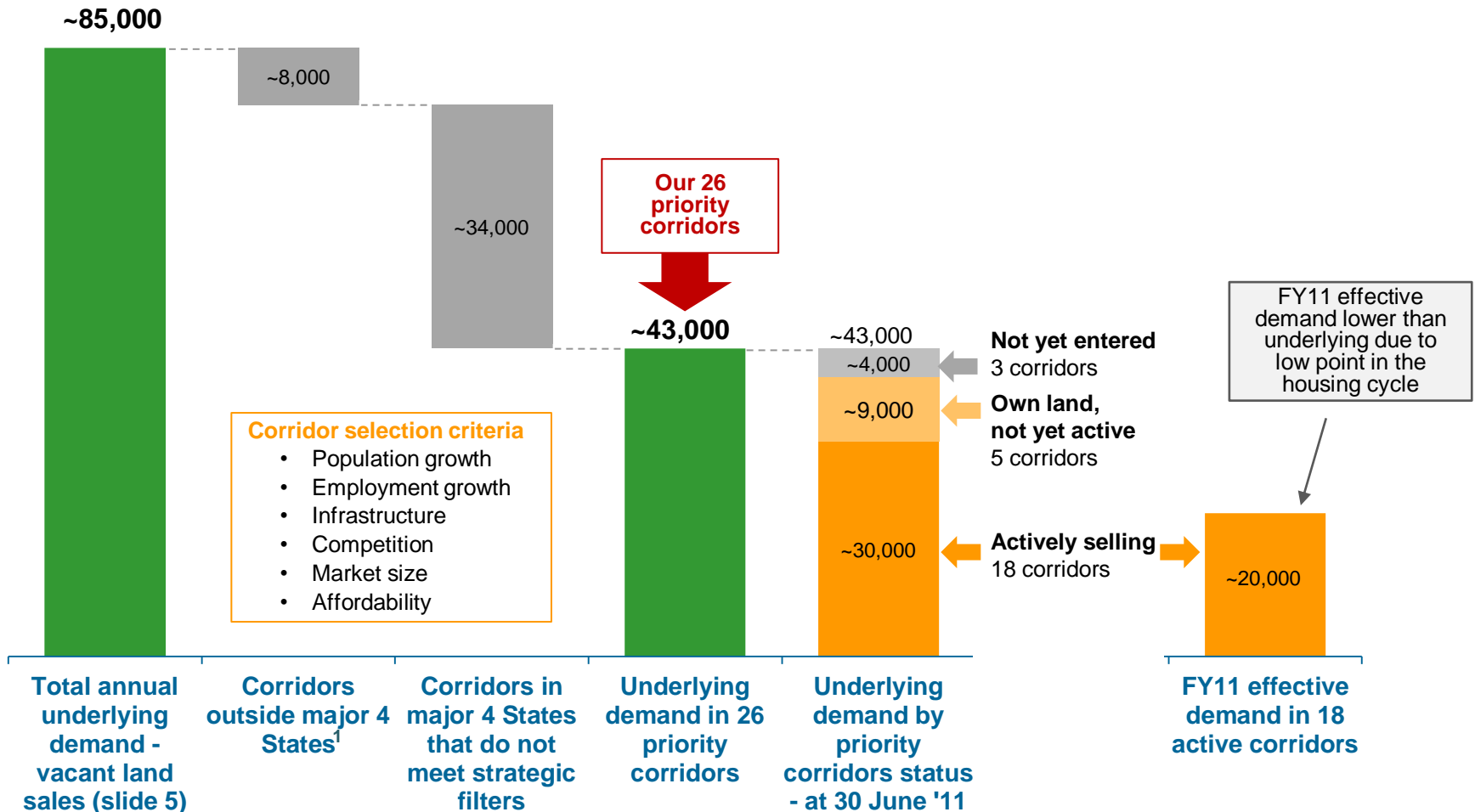
# Strong population and declining household size creates underlying annual demand for 160,000 dwellings<sup>1</sup>





# We have significant potential for growth by expanding into new corridors

## Annual underlying demand for vacant land sales



# Our competitive advantages enable us to capture market share

## - in FY11 we achieved 29% share in active corridors

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### 1. Identify and acquire land

- Targeted corridor strategy
- Acquisition of quality land on capital efficient terms
- Strong balance sheet and proven track record provides vendor certainty

### 2. Customer insight

- Know what customers need
- Strong customer relationships
- Higher quality leads

### 3. Product development

- Focus on affordability
- Attract a broad range of buyer segments
- Higher conversion and sales rates
- Higher and more consistent revenue flows

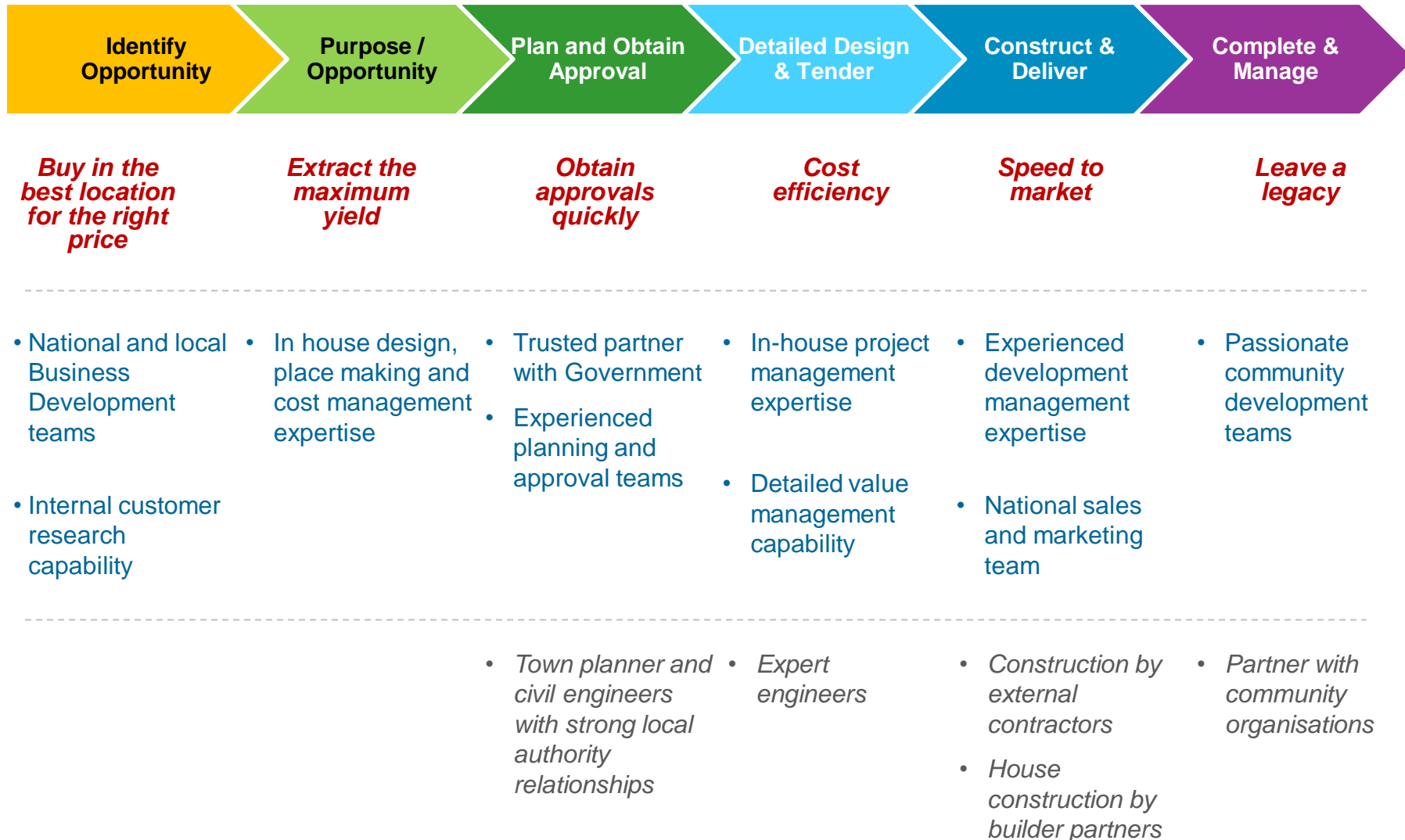
### 4. Community creation

- Happier customers / better places to live
- Higher sales rates
- Higher referrals

### 5. Government and community relations

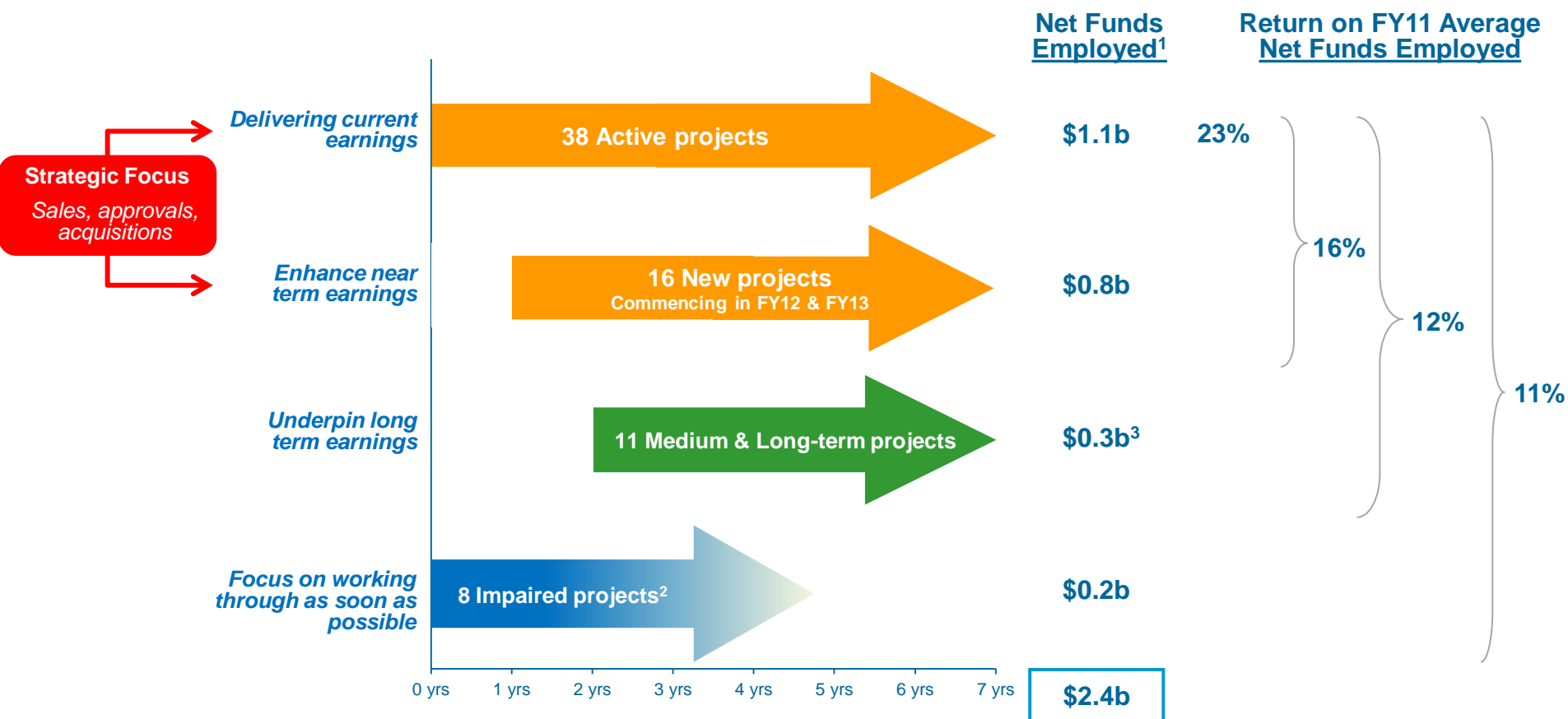
- Faster speed to market (e.g. East Leppington, Lockerbie)
- Seen as a trusted partner by Government

# Our scale enables us to invest in key capabilities





# Speed to market delivers strong returns on funds employed

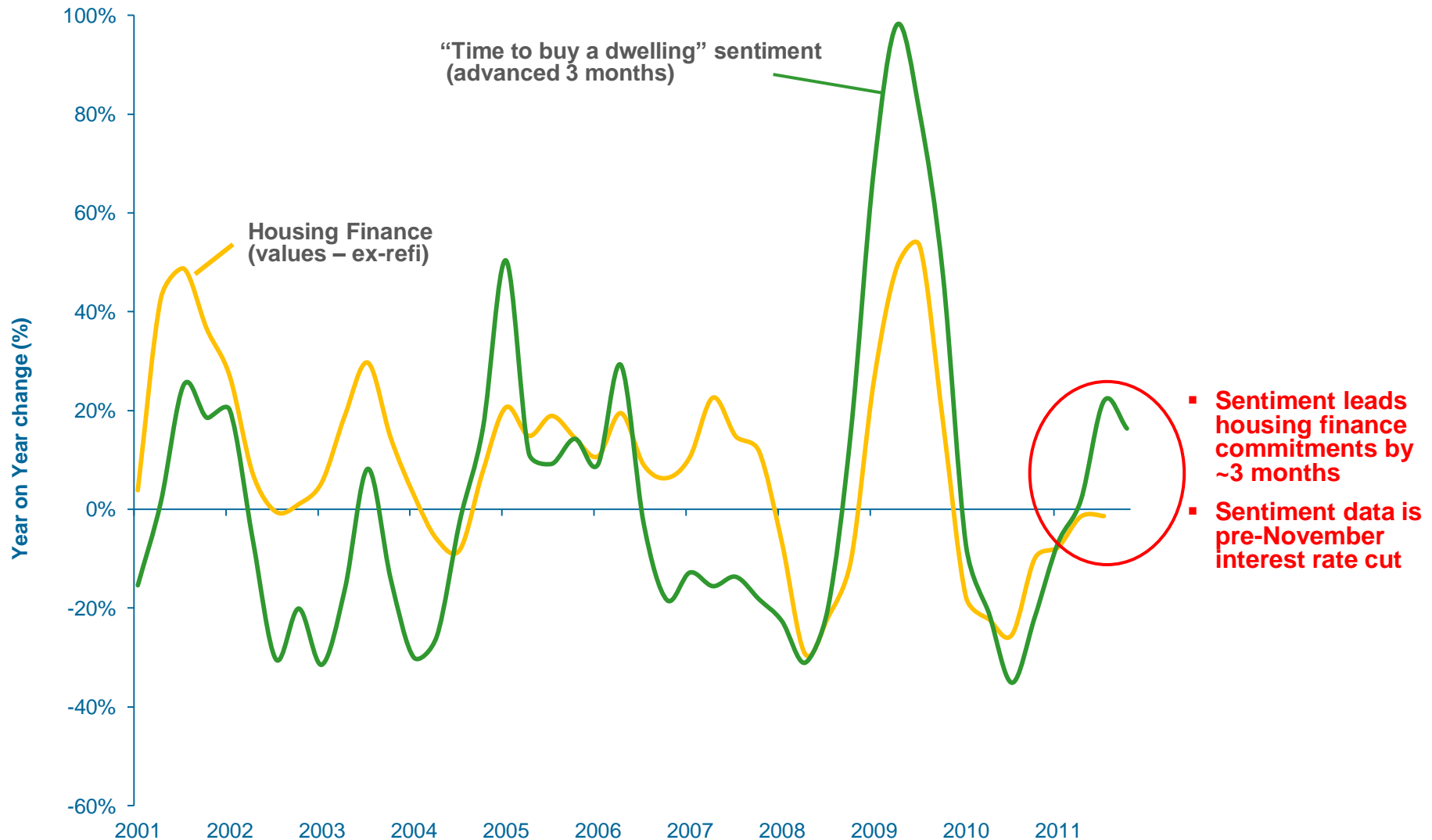


**Returns are effectively after interest:**

$$\text{RONFE} = \frac{\text{Operating Profit (net of interest in COGS)}}{\text{Average Annual Net Funds Employed (including capitalised interest)}}$$

1. Based on net funds employed as at 30 June 2011 plus The Vale and Whiteman Edge \$271m acquisition 1 July 2011
2. Net of impairment provision of \$0.2bn
3. \$0.2bn is Caloundra

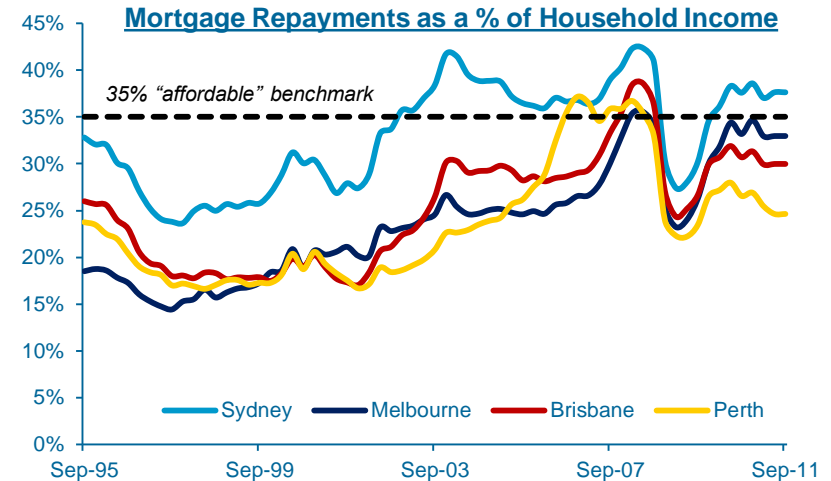
# National housing sentiment points to improving activity<sup>1</sup>



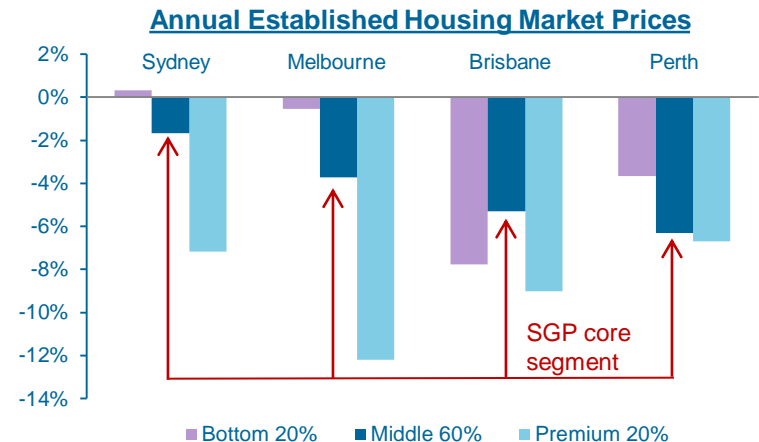
# Affordability has improved

- Affordability improving due to:
  - Weak established house prices
  - Falling interest rate environment
  - Rising incomes
- Melbourne, Brisbane and Perth affordability remains below 35% benchmark
- Weakness in established market mostly at premium end:
  - Middle market down 3.3% (our core segment)
  - Premium market down 8.4%

## Affordability in most States trending down<sup>1</sup>



## Stockland's core segment is more robust<sup>2</sup>

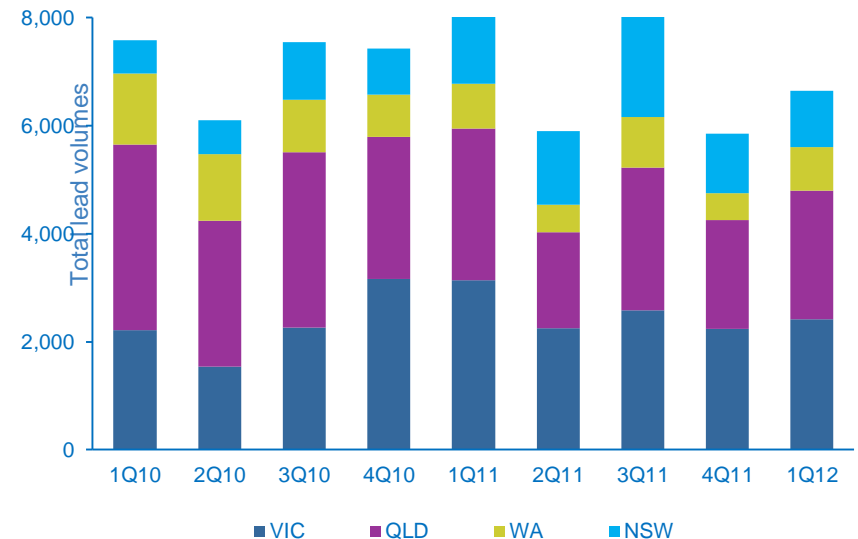




# Our lead volumes are starting to improve

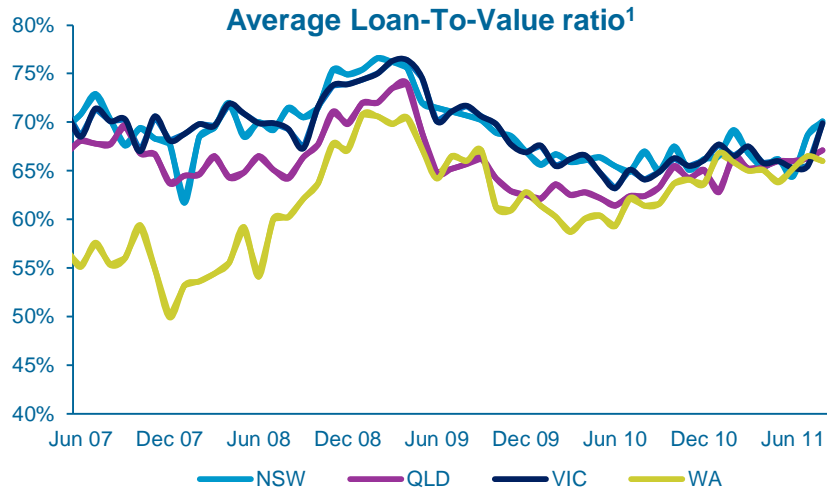
- Latest quarter leads up on prior quarter
- Strong demand from first home buyers reflects our focus on value, affordability and product development
- Growth in latest quarter mainly in WA and Qld
- Reflective of improving customer sentiment and anticipation of interest rate cuts:
  - NSW buyer sentiment solid for affordable product; supply shortage will support large scale projects such as Leppington
  - Vic market returning to more normal levels; affordable projects selling well
  - WA impacted by weak established market and large stock overhang, but housing finance and income rising and affordability is improving
  - Qld coming off bottom of the cycle; \$10k Qld govt Builders Boost stimulating demand for affordable product

Stockland customer leads<sup>1</sup>

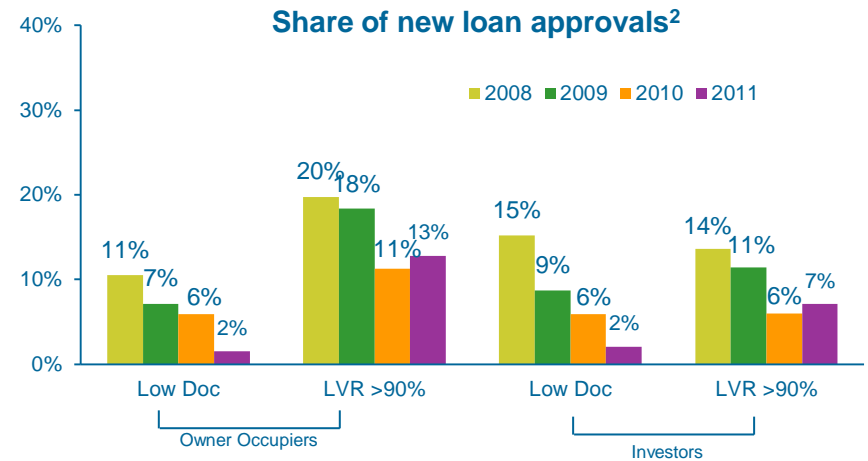


# Mortgage debt sustainability, bank mortgage lending is responsible

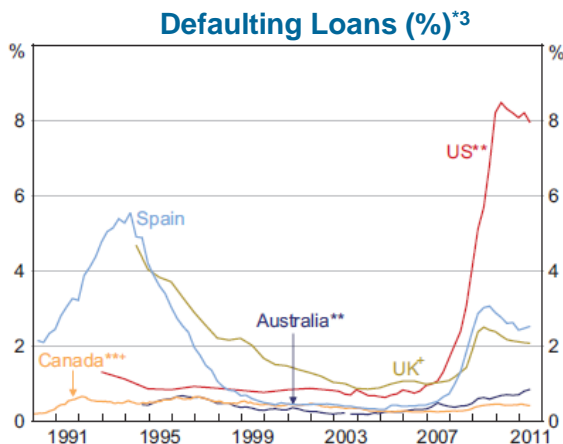
## Sustainable debt - buyers are taking on less debt



## High risk loans are low and falling

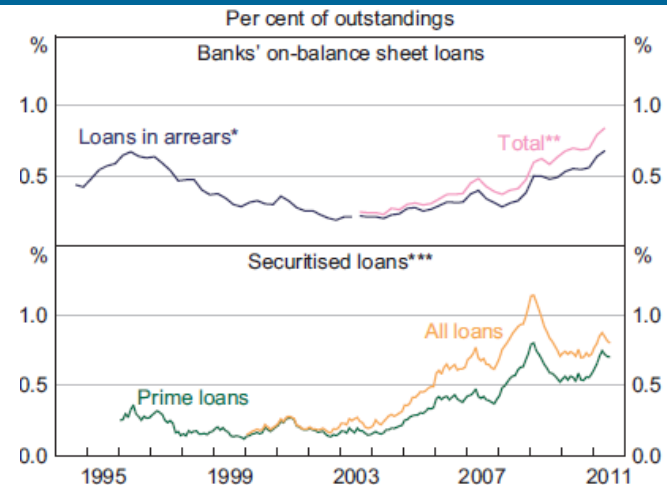


## Loan defaults remain low in Australia



\* - Per cent of loans by value. Includes impaired loans unless otherwise stated. For Australia, data prior to September 2003 based on loans 90 days in arrears \*\* Banks only; + Per cent of loans by number that are 90+ days in arrears

## 90+ day delinquencies are low<sup>4</sup>



\* Loans that are 90+ days past due but otherwise well secured by collateral  
\*\* Includes 'impaired' loans that are in arrears (or are otherwise doubtful) and not well secured by collateral

\*\*\* Loans securitised by all lenders, 90+ days past due; excludes self-securitisations  
Sources: APRA; Perpetual; RBA; Standard & Poor's

# Leading the market in development of affordable product

## Meeting the affordability challenge

- Affordability still stretched by historic standards; product innovation the key to meeting the challenge:
  - Reduced average lots sizes by almost 20% in 3 years
  - Increased proportion of lots developed under 450sqm from 27% in FY08 to 50% in FY11
  - Developed new housing solutions in partnership with builders (e.g. 8.5m frontages)

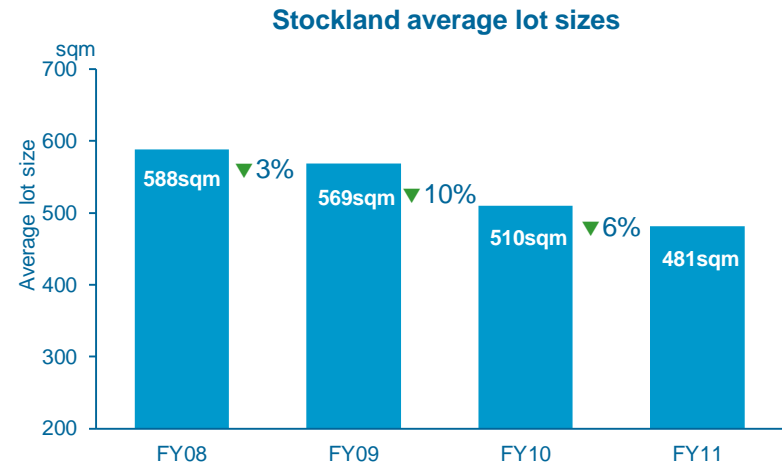
## Deep customer insight creates customer value

- Understanding price barriers to meet customer needs
- Early delivery of open space and social infrastructure
- Community development initiatives in place for all projects

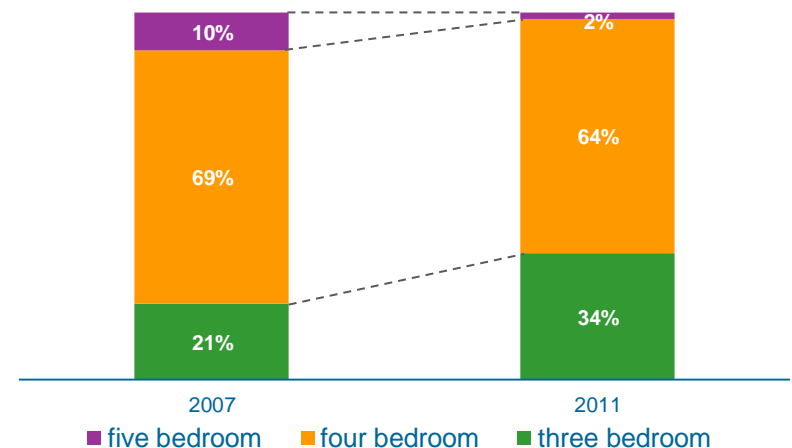
## Increased preference for three bedroom houses

- Decline in consumer preference for larger five bedroom houses replaced by increased demand for more efficient 3 bedroom houses
- Average 3 bedroom house sizes have fallen 25% since 2007 in Stockland Residential Communities; there is increasing demand for smaller houses as customers seek more affordable product

## Innovative, smaller product meeting customer needs



## A preference for three bedroom houses is emerging<sup>1</sup>







Tarneit Skies Retirement Village, Vic



Stockland

# Retirement Living

# Delivering on our strategy to increase market share and returns

## Retirement Living net reservations

- Strong Q1 12 result driven by record monthly reservations in September 2012

## Accelerated growth through acquisitions

- Diversified geographically and established national platform by entering WA, SA and ACT markets
- Have critical mass in Vic, NSW and Qld
- Acquired 3 RVG villages with accretive cash yield (settled 30 June 2011)

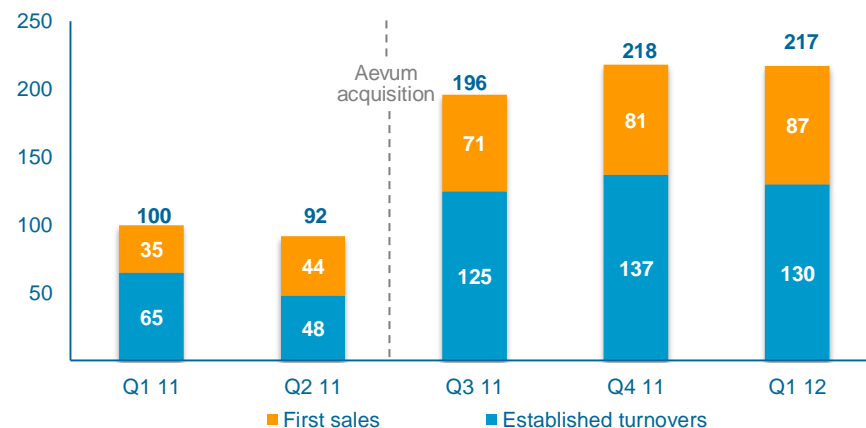
## Synergies realised

- Annualised cost synergies of 15% realised in FY11; ahead of plan
- Leveraging Stockland skill set in development (Residential) and asset management (Commercial Property)

## Strong portfolio growth and diversification

Portfolio		
Established portfolio	7,535 units over 59 villages <sup>1</sup>	Significant increase in scale
National ranking	#3	Clear #3 in market
Market share <sup>2</sup> and geographic diversity	~9% (6 states)	National platform
Existing units turnover	416 units p.a.	Strong turnover from mature portfolio
Average village age	18.1 years	More mature villages enhance cash yield
Development pipeline	3,400 units	Strong organic growth potential
-Active	1,100 units	
-Long-term	2,300 units	

## Retirement Living net reservations



# Attractive industry fundamentals underpins outlook

## Compelling demand drivers

- Expect demand for new developments of circa \$35b over the next 20 years (at current prices)
- Industry will struggle to meet demand, given fragmented structure

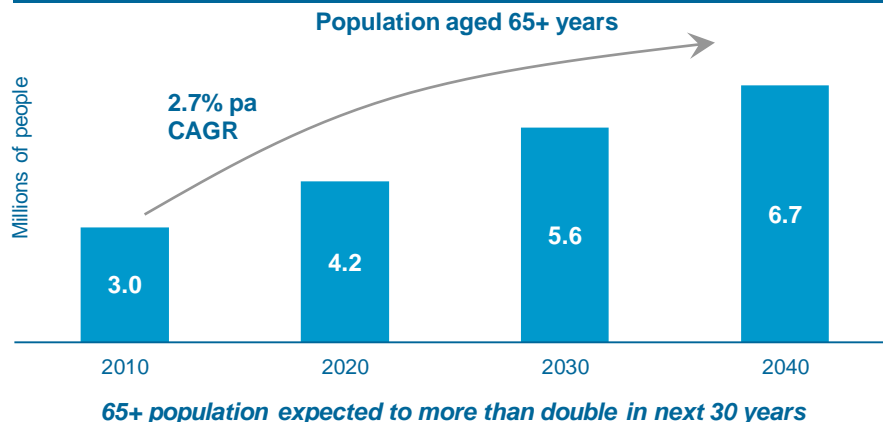
## Attractive long-run investment returns

- Business expected to deliver an ongoing unlevered IRR of circa 12%, after overheads
- Stockland outperformed relative to this benchmark over last four years

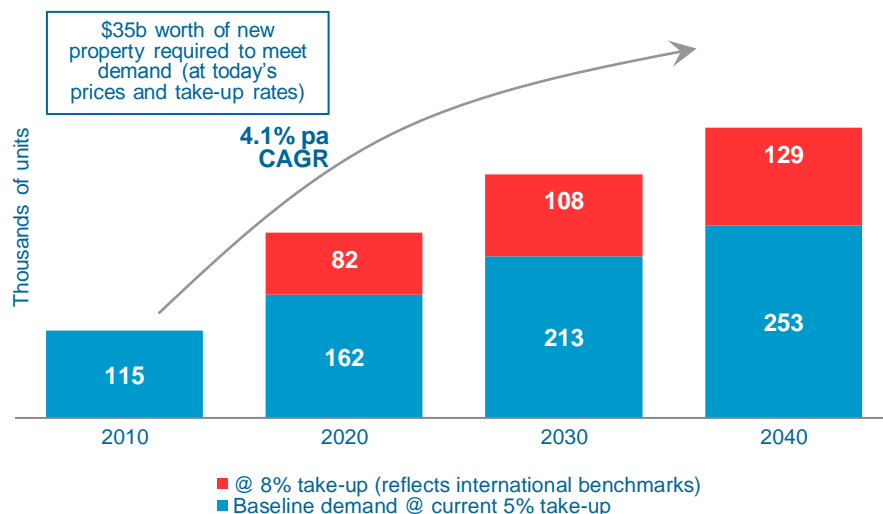
## Stockland villages are appealing to residents

- Villages are active communities with 65 – 85 year old residents; they are not nursing homes
- Villages offer facilities including dining rooms, library, pool gardens, personal care and social activities
- Annual residents' survey shows 88% of residents are satisfied or extremely satisfied with village life
- 56% of residents have referred at least one person to a Stockland village; 30% of sales are the result of a referral

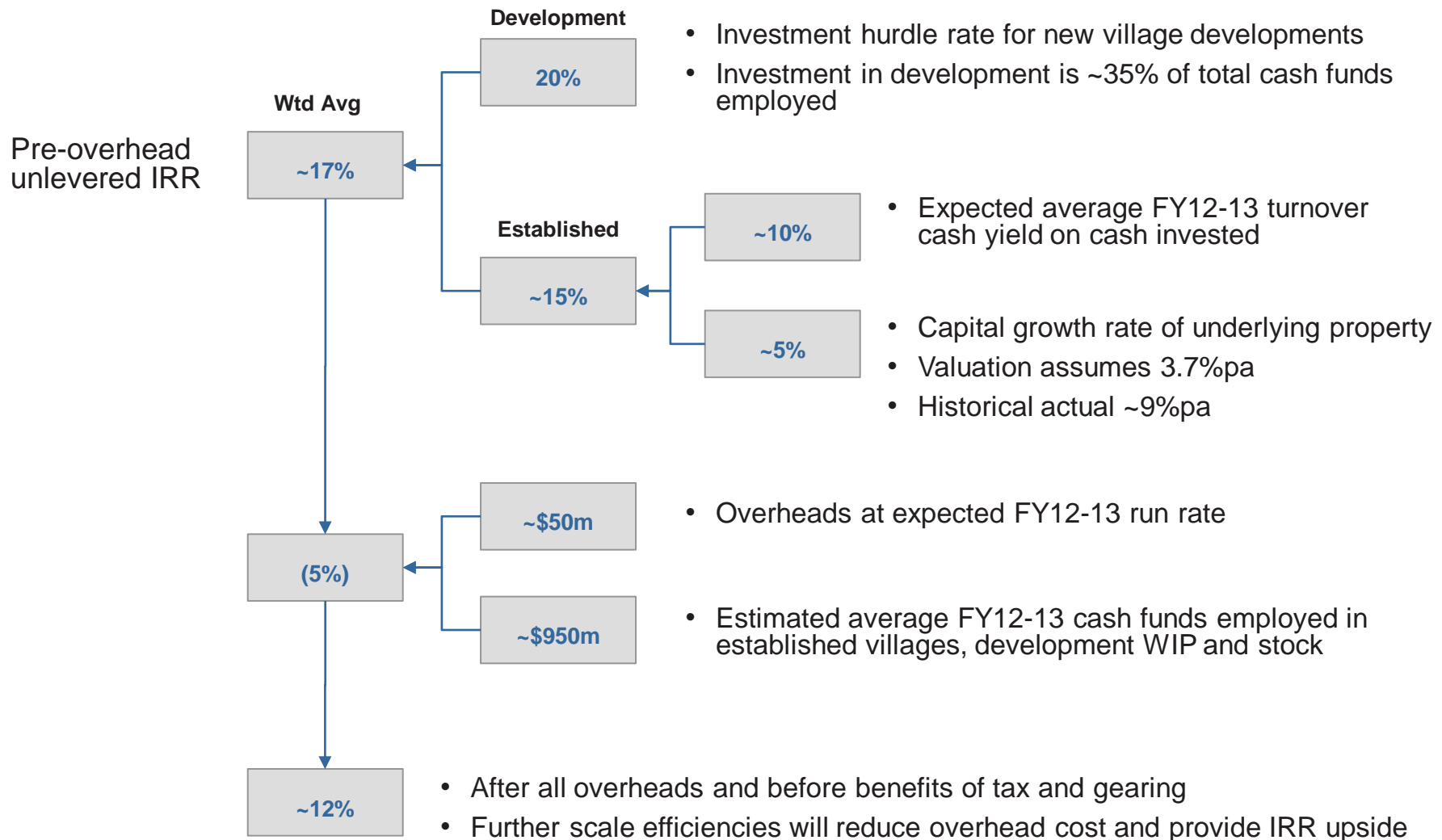
## Growth of >65 year old demographic is an opportunity



## Expect large increase in retirement village demand



# Retirement Living is expected to deliver net cash returns of ~12%







# Commercial Property

# Our Retail centres are outperforming the market

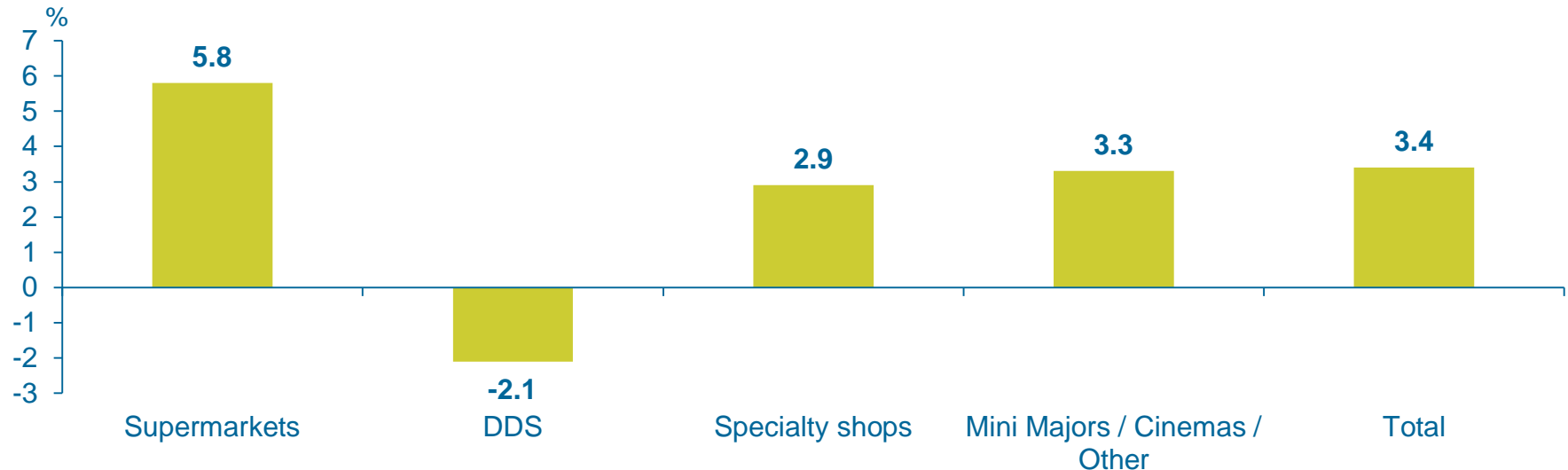
## Value and convenience offering continues to be more resilient

- MAT performance to 30 September 2011 stronger than market; October sales continued this trend
- Centres in regional markets such as Gladstone, Nowra and Traralgon are trading particularly well
- Redeveloped centres trading extremely well – Rockhampton and Balgowlah
- Some metropolitan retail centres are underperforming – e.g. The Pines and Bull Creek

## Redevelopments on track

- Major projects at Merrylands, Townsville and Shellharbour all on time and on budget
- Planning progressing at Wetherill Park and Green Hills and we can afford to be patient

### Comparable Moving Annual Turnover growth to 30 Sep 2011





# Delivering on our strategy of re-weighting to Retail

## Retail

- Acquired \$241m of quality assets in the key growth areas of Hervey Bay and Point Cook
- \$2.2b<sup>1</sup> development pipeline on program and budget

## Office and Industrial

- Disposed of a further \$150m of small and management intensive assets in FY11
- 82% of office portfolio now A grade

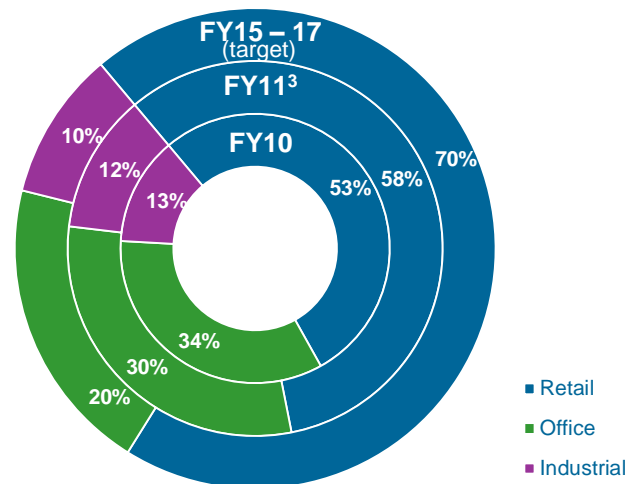
## Customer is core to delivering our strategy

- Realigned leasing team structure to provide a seamless approach to retailer account management

## In depth analysis of online retail spend

- Study commissioned with the Quantum Group of over 1billion credit, debit card, BPAY and PayPal transactions from 2 million Australians
- Findings confirm that online is a small (4-5%) but growing part of the Australian retail landscape
- We actively manage our centres and take a flexible approach to retail mix planning, based on robust market research

## Portfolio re-weighting<sup>2</sup>



## Commercial Property strategy

### Retail

Develop larger, higher quality retail assets with strong trading record and in areas of market growth

Leverage Stockland's integrated model and land bank

### Office and Industrial

Own and manage a quality office portfolio in major markets

Focus on large, flexible industrial estates close to major transport hubs

Asset sales to fund retail development pipeline

# Long-term fundamentals underpin strategy

## Sound retail fundamentals

- Population growth drives retailer demand for new retail space in growing trade areas
- Current active construction pipeline implies undersupply

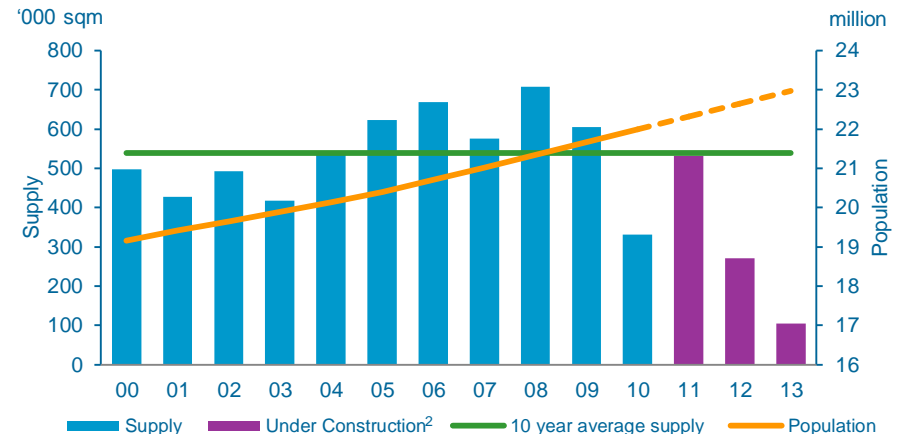
## Stockland centres outperform market averages

- Key assets have inherent growth prospects through redevelopment:
  - Highly productive centres - well above Urbis averages
  - Benefit from long sales history, relationships with anchor tenants and detailed knowledge of trade areas
  - Opportunity to create quality assets without compromising convenience

## Actively managing challenges of online retailing

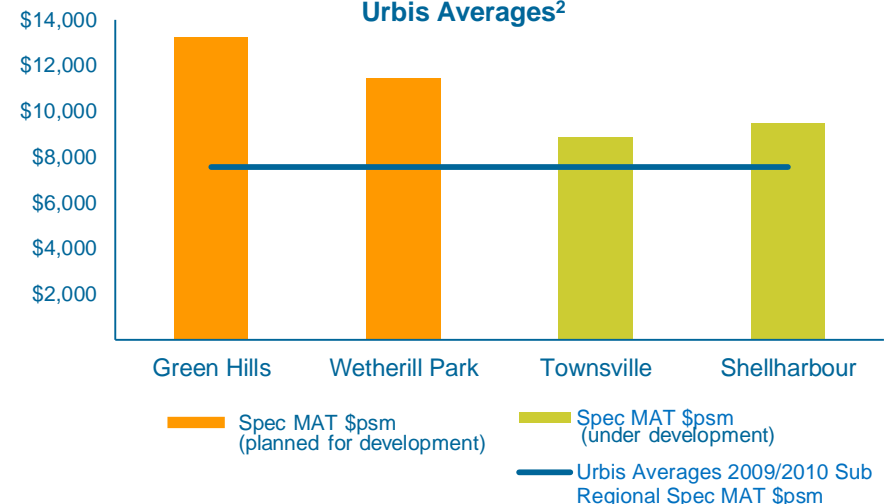
- Build greater flexibility in development plans
- Continued focus on building loyalty and amenity e.g. improved food offering, play areas, parent rooms

## National retail demand outstrips supply<sup>1</sup>



## Redevelopment potential within existing portfolio

### Centres planned/under development outperform Urbis Averages<sup>2</sup>



# Retail development pipeline on program and budget

## \$300m projects came on line in FY11, trading ahead of expectations

- Rockhampton, North Shore Townsville, and Merrylands stage 2B and 3A all delivered and trading well
- Rockhampton achieved value uplift of 34% on \$118m cost over life of project - yield on cost 8.1%

## \$935m projects under construction

- All anchor tenant lease agreements and fixed price building contracts executed
- Specialty shop project leasing on budget and demand from national retailers remains strong

## Future projects

- Hervey Bay expected to commence in FY12/FY13, Gladstone redevelopment to be brought forward
- Green Hills and Wetherill Park planning processes extended

Retail development pipeline					
	Est. total cost (\$m)	Estimated cost to complete (\$m)	Estimated fully leased year one yield	% total income leased	% specialty income leased
<b>Under Construction</b>					
Merrylands Completed Nov-12	395	145	6.5%	75%	65%
Townsville Completed Jul-12	175	115	6.5%	52%	32%
Highlands Completed Nov-11	35	20	6.1% <sup>1</sup>	79%	48%
Shellharbour Completed Sep-13	330	270	7.6%	24%	5%
<b>Sub-total</b>	<b>935</b>	<b>550</b>			
<b>Identified projects expected to commence in the next 2 years</b>					
Hervey Bay	120	120	7.25-7.75%		
Green Hills	350	350	7.25-7.75%		
Gladstone	125	125	7.25-7.75%		
<b>Sub-total</b>	<b>595</b>	<b>595</b>			
<b>Future Projects</b>	<b>1,075</b>	<b>1,075</b>			
<b>Total development Pipeline</b>	<b>2,220</b>	<b>2,220</b>			



Newhaven, WA



Stockland

# Financial Management

# Capital management initiatives

## 5% on market share buyback

- Security price has fallen to a level that does not reflect the underlying value of our business nor Stockland's strong capital position
- Buyback funded by sale of non core office and industrial assets and the deferral of uncommitted expenditure
- Bank facilities in place to manage any funding timing differences; minimum liquidity buffer of at least \$500m will be maintained
- Acquired 60.6m securities at an average of \$2.94 for a consideration of \$178.2m<sup>4</sup>

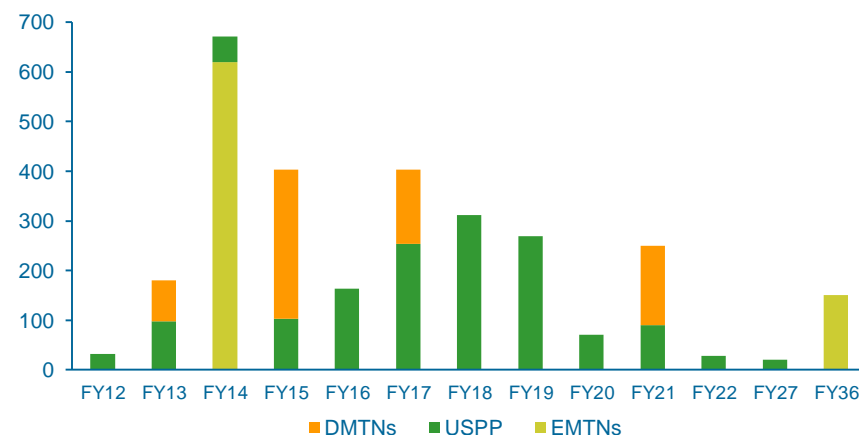
## Prudent debt levels maintained

- S&P A- Stable rating confirmed
- Weighted average debt maturity 5.9 years
- \$176m raised for 10 years through USPP in 1Q 12
- Pro forma gearing to remain around 22%, below target range 25% – 35% of tangible assets
- No refinancing issues - \$32m debt maturing in FY12

## Balance sheet metrics at 30 June 2011

S&P rating	A- / Stable
Drawn debt <sup>1</sup>	\$3.0b
Cash on deposit	\$0.2b
Available undrawn committed debt facilities	\$0.5b
Gearing (net debt <sup>2</sup> / total tangible assets)	22.0%
Interest cover	5.3: 1
Weighted average debt maturity	5.9 years
Debt fixed/hedged	59%
Weighted average cost of debt for FY11	5.7%
Weighted average cost of debt at 30 June 2011	6.3%

## Long-dated drawn debt maturity profile<sup>3</sup>



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1. Excludes bank guarantees
2. Drawn debt less cash
3. Excludes offset of \$0.2b cash on deposit
4. Total buyback of Stockland securities as at 18 November 2011





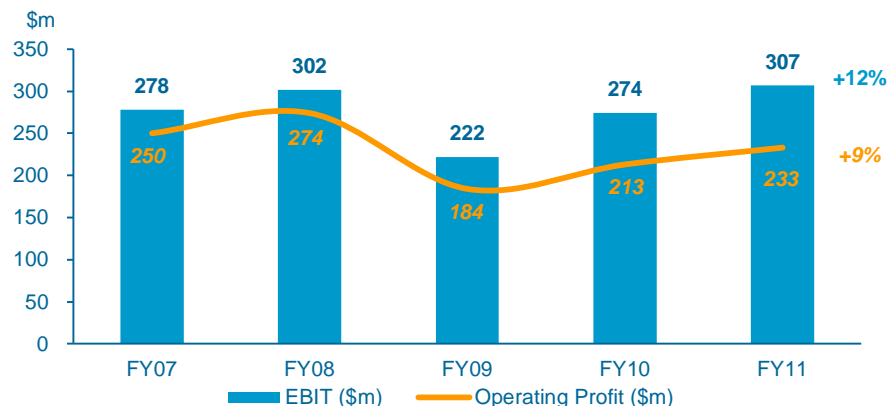
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## Appendix

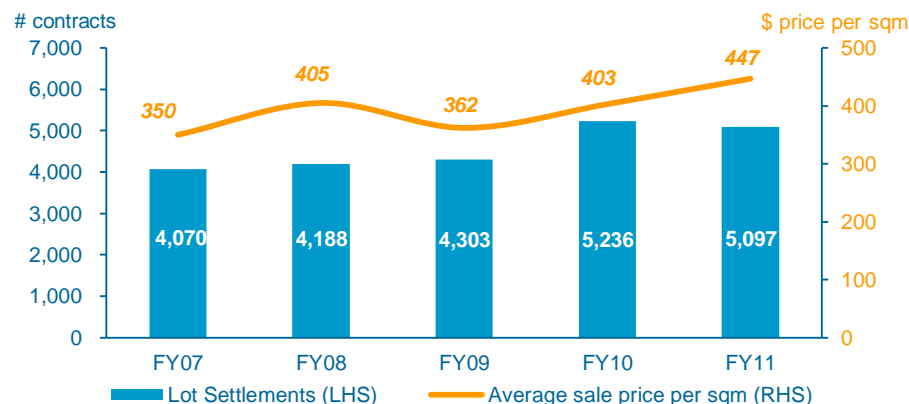


# FY11 Results and key metrics - Residential Communities

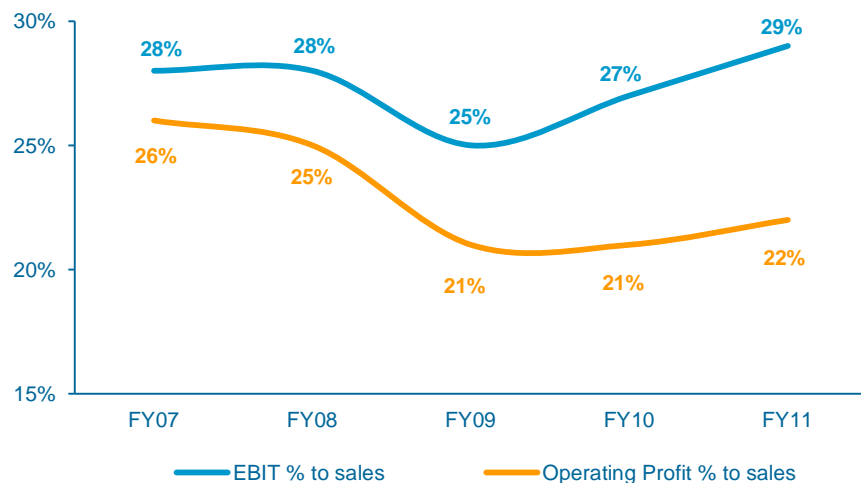
## Strong profit growth post global financial crisis



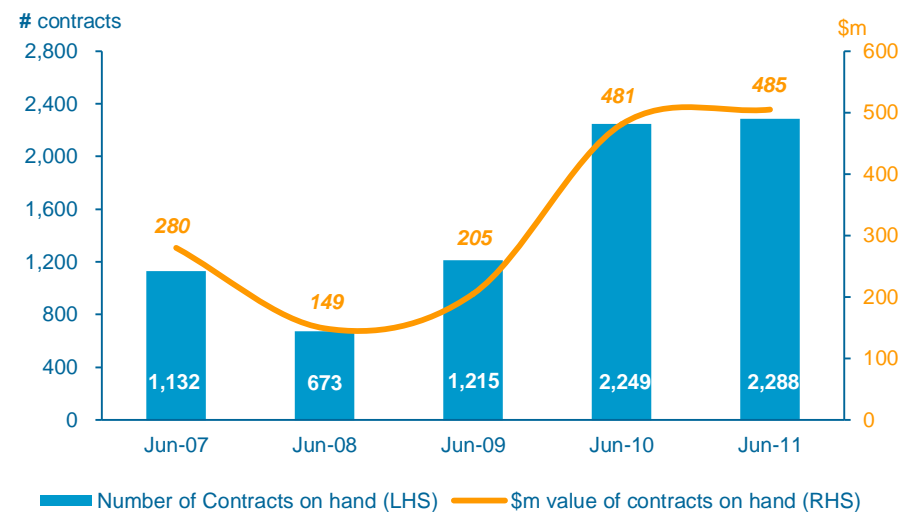
## FY11 settlement volumes slightly down, but price per sqm significantly up



## Improving margins through price growth and cost efficiencies

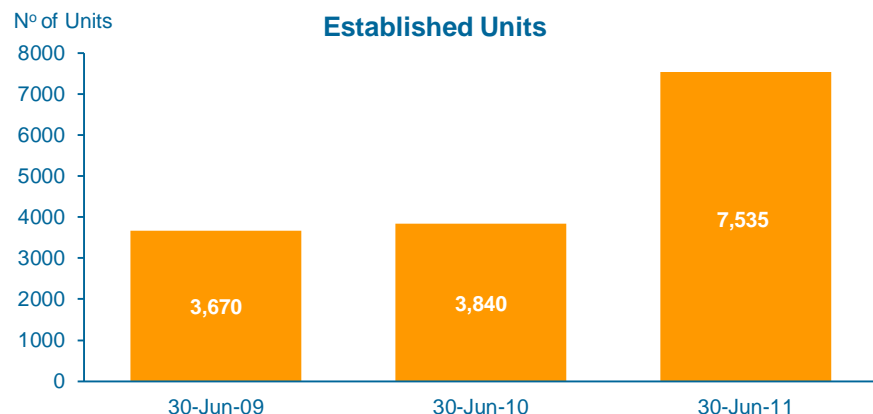


## Record contracts on hand to settle in FY12

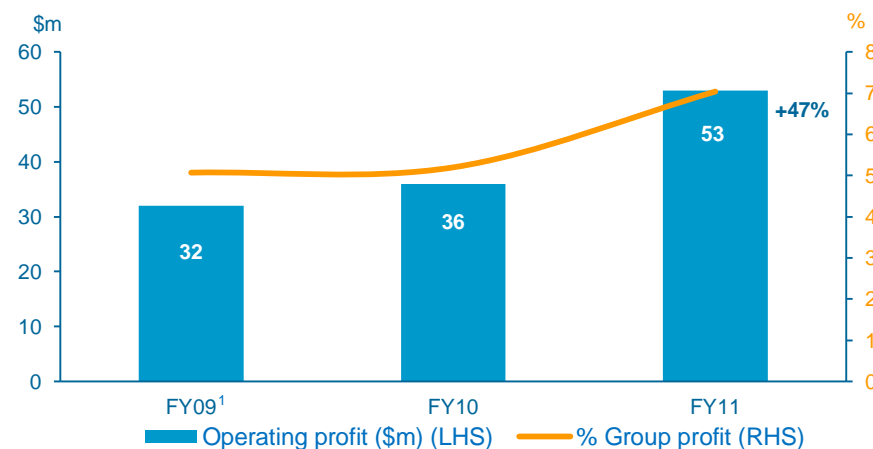


# FY11 Results and key metrics - Retirement Living

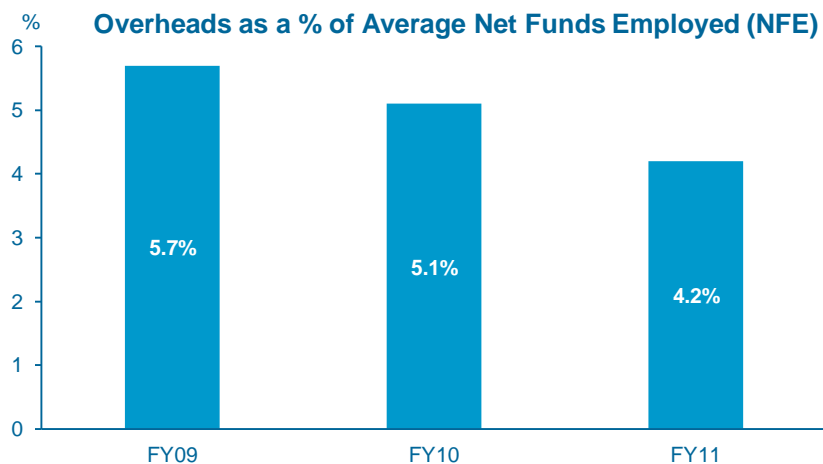
## Aevum acquisition was business transformational



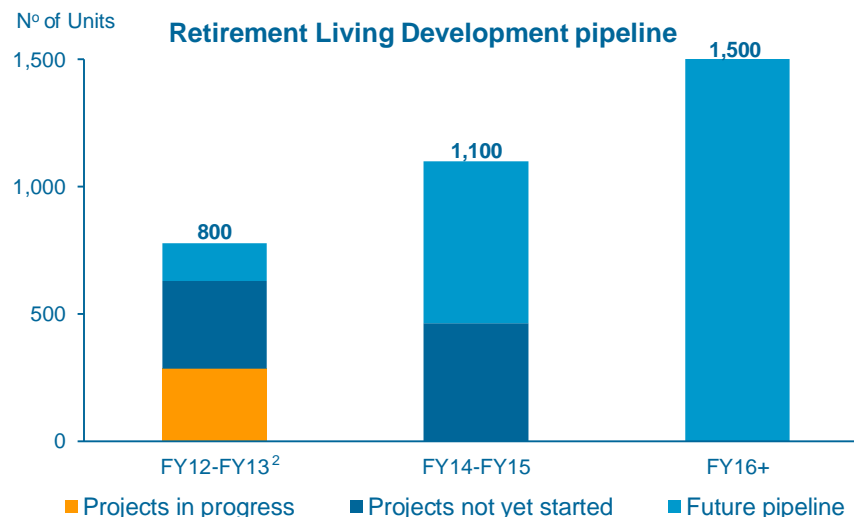
## Retirement Living is now making a meaningful profit contribution



## Achieving significant economies of scale



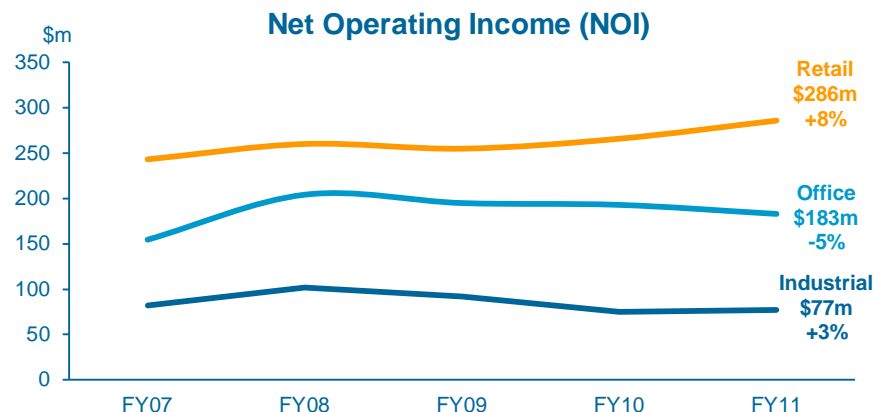
## Development pipeline will deliver cash profits and further cost efficiencies



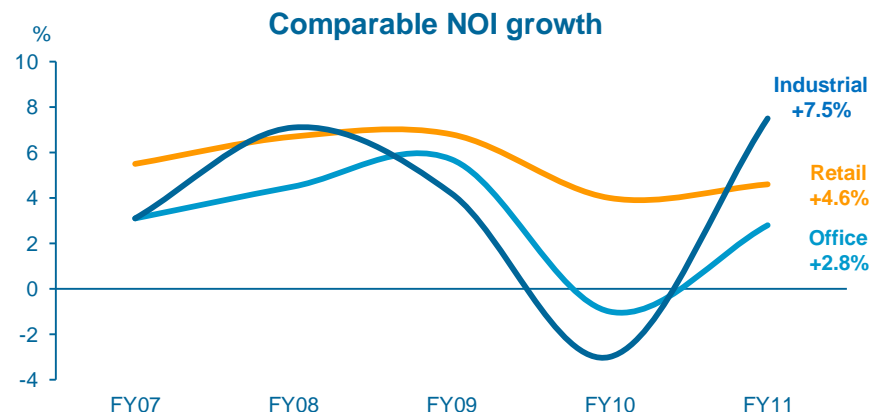
- 301. FY09 has been restated to reflect changes arising from AASB140  
 2. Timing subject to market conditions

# FY11 Results and key metrics - Commercial Property

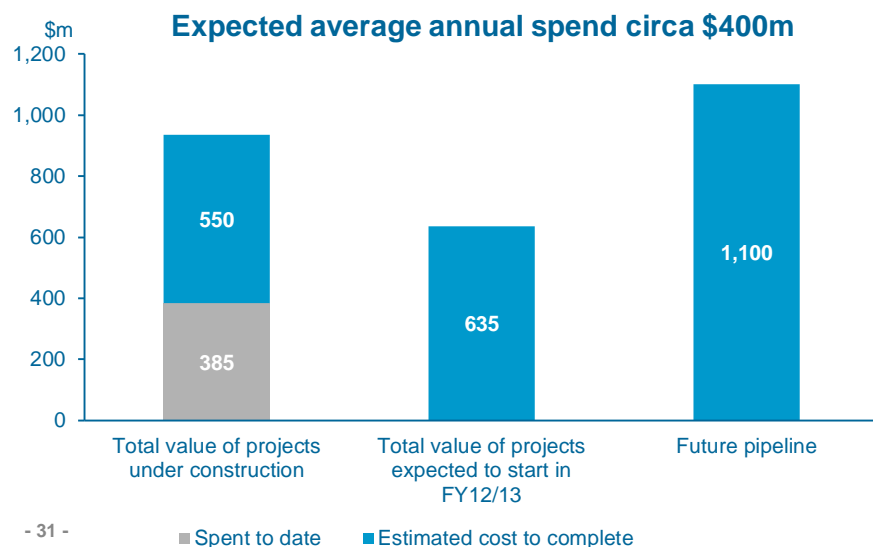
## Strong growth in Retail NOI, Office NOI down due to asset sales



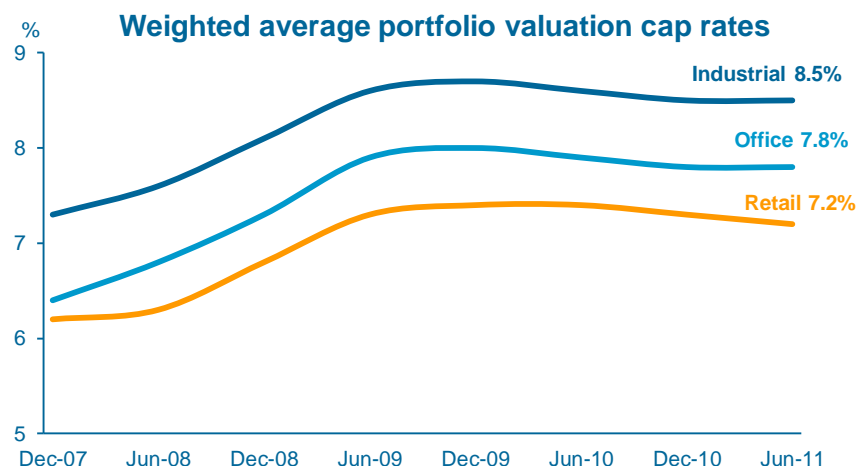
## Strong and consistent Retail comparable growth; Office & Industrial improving but more volatile



## Retail development pipeline to be delivered in stages to manage cash flow and delivery risk

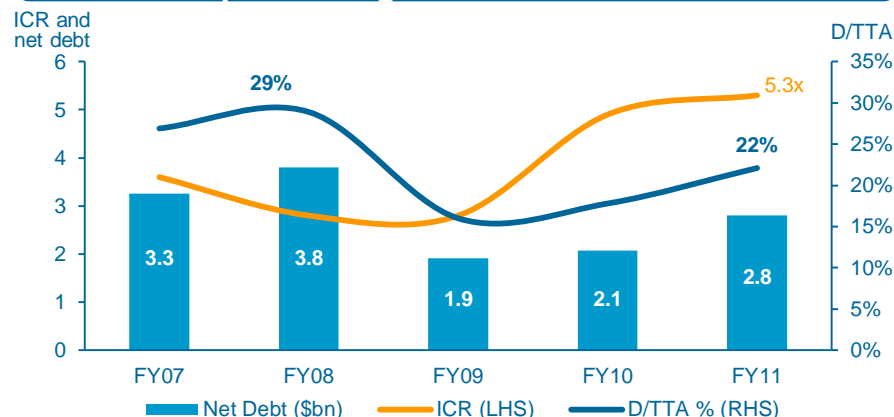


## Cap rates slowly firming

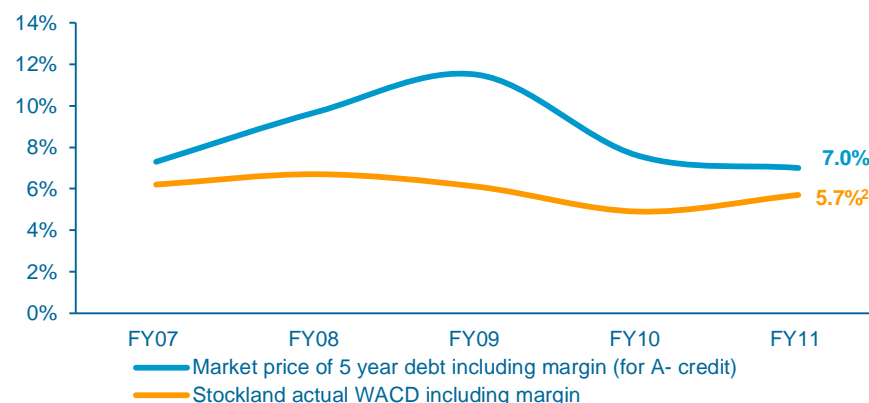


# FY11 Results and key metrics - financial management

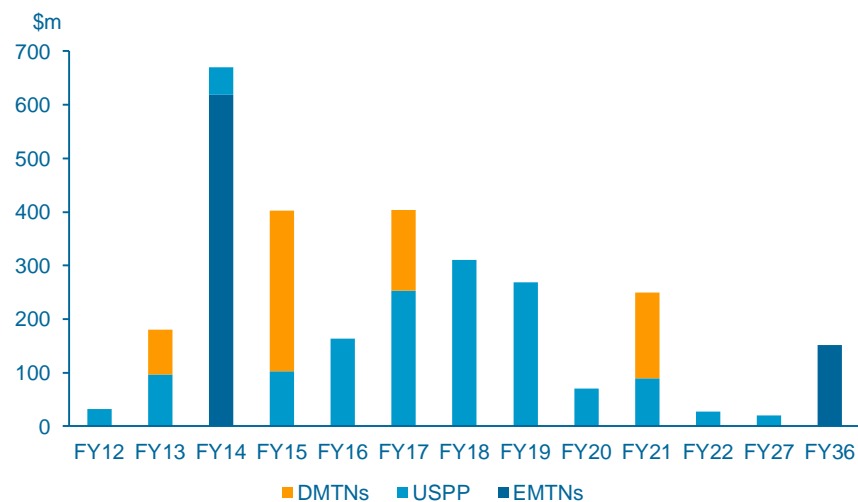
## Maintaining conservative gearing in response to global credit concerns<sup>1</sup>



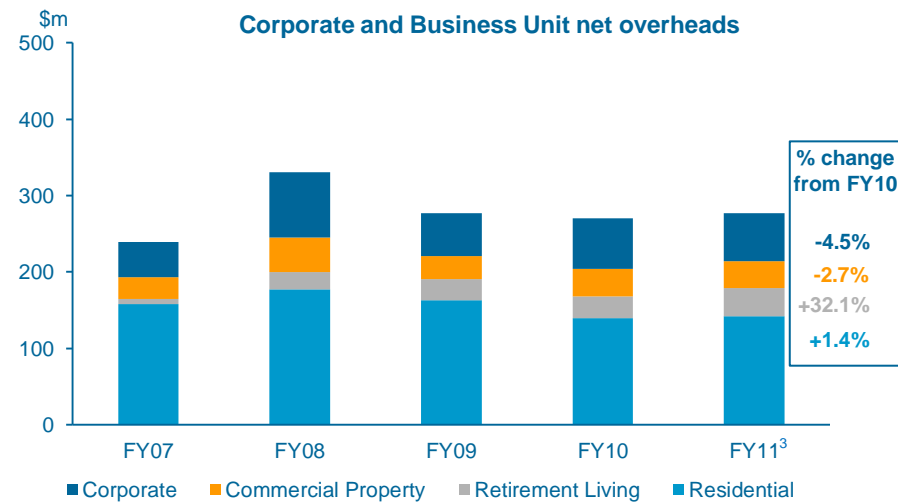
## Low average interest cost through active debt management and hedging



## A- rating provides access to global debt markets achieving long-dated debt maturity profile<sup>1</sup>



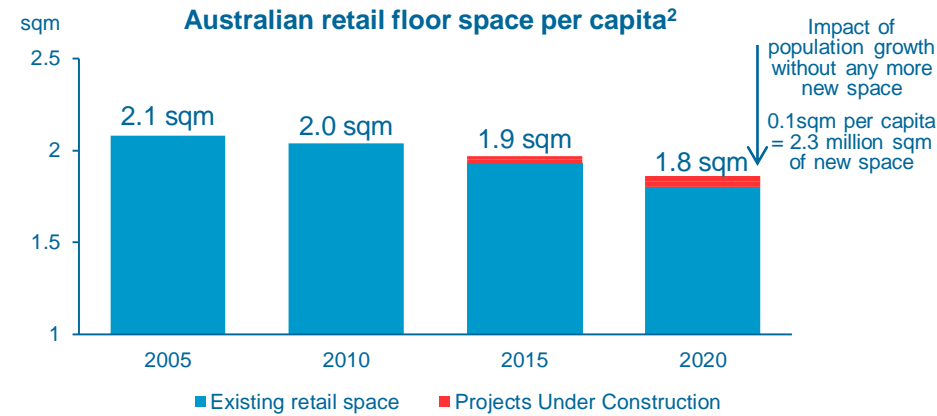
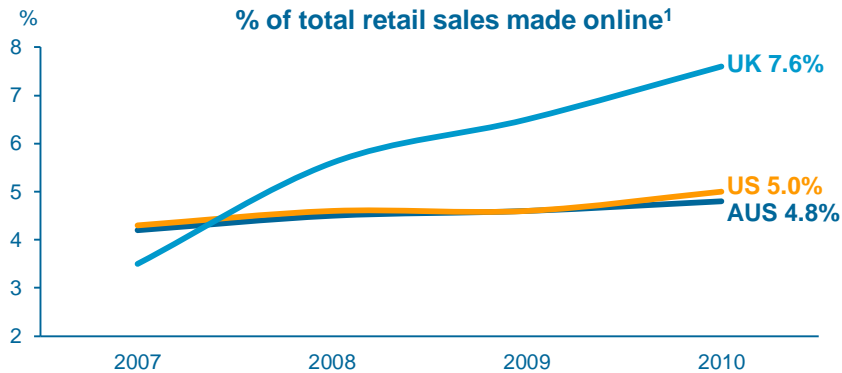
## Prudent Cost Management



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 1. Includes offset of \$0.2b cash on deposit  
 2. Excludes cost of hedge restructuring  
 3. Excludes Aged Care

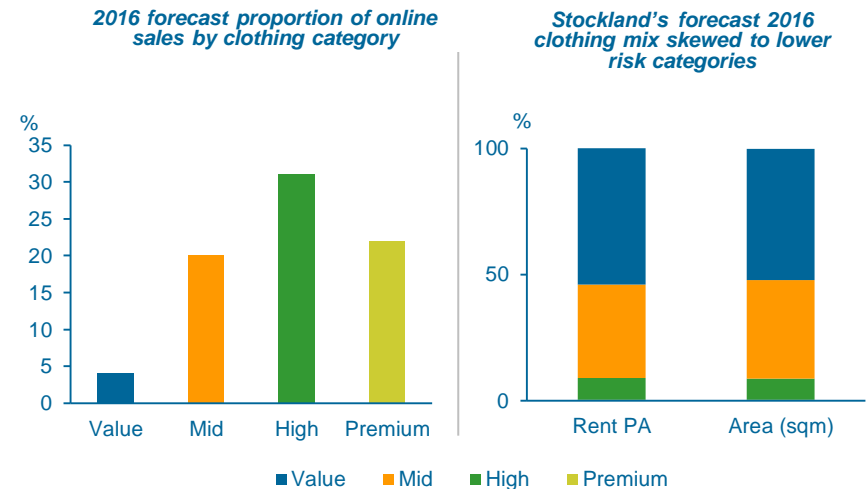
# Impact of online retailing on traditional bricks and mortar

Online is a threat to traditional shopping but building less new space provides a natural 'shock absorber'



Our retail development strategy is designed to address the risk of increased online shopping

- Flexible development plans and retail mix
- Not overbuilding, e.g. Shellharbour will have total of 220 specialty shops
- Focus on day-to-day value and convenience
- Increasing proportion of food, leisure, retail services and entertainment
- Many centres are in regional areas and become the natural social hub of the community
- Our decisions are based on extensive research in partnership with Quantum<sup>3</sup>



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**Slide 32:** Independent research by the Quantum group using Market Blueprint data. De-identified transactional data for over 2 million customers. Data re-weighted using Census; bias-free and population representative. Includes credit card, debit card, BPay and PayPal transactions. Over 1.5 million transactions per day; 1 billion plus in aggregate. 25,000 retailers across a broad range of Stockland relevant categories. Includes transactions from Jan 2010 to Feb 2011 inclusive.

**Slide 33:** Energetics: This information is of a general nature only and has not taken into account Stockland's objectives or particular financial situation. This information should not be relied upon for making any investment decision and no warranty is given to its accuracy.