



# Stockland Market Update

## December 08





# Introduction

## FY09 Outlook

- Underlying FY09 Operating Profit remains in line with previous guidance, but downside risks remain from residential sales

## Residential

- First home owner segment of residential market stronger due to Federal Government's First Home Owners Boost and recent interest rate cuts
- Top end of residential market very soft
- Full review of residential inventory carrying values – provision of circa \$105m after tax in 1H09 result

## Commercial

- Asset sales being achieved
- 50bps increase in average cap rate in 1H09, partially offset by rental growth

## UK

- Conditions remain very tough, but no change to guidance
- No significant new capital will be invested in the short term

## Balance Sheet







- Significant headroom within debt covenants and undrawn facilities

## Strategy

- Our strategy is adapting to changing capital and property market dynamics

# Residential outlook – by market segment

## SGP current purchaser profile

Renters		N/A	<ul style="list-style-type: none"><li>Differential of own vs rent is shrinking dramatically due to rising rents and lower interest rates</li></ul>
First Home Owners		45%	<ul style="list-style-type: none"><li>Affordability improving due to:<ul style="list-style-type: none"><li>- First Home Owners Boost</li><li>- interest rate cuts</li><li>- more affordable product being brought to market</li></ul></li></ul>
2 <sup>nd</sup> / 3 <sup>rd</sup> Home Buyers		30%	<ul style="list-style-type: none"><li>Uncertainty around employment is creating anxiety, however interest rate cuts are renewing interest</li></ul>
Top End Buyers		5%	<ul style="list-style-type: none"><li>Hardest hit segment and currently very fragile – oversupply issues in top end markets</li></ul>
Retirees		10%	<ul style="list-style-type: none"><li>Full equity buyers, but reliant on sale of existing home</li></ul>
Investors		10%	<ul style="list-style-type: none"><li>Returning to market due to interest rate cuts and increasing rents - investors also shunning equities</li></ul>

# Residential outlook – the first home owner segment

- We changed our product mix in early 2008 to address affordability - we are now in the 'sweet spot' for first home owners
- First home owner campaign launched in November – 'Kick The Rent', one of our most successful national marketing campaigns
- Banks are lending 90-95% to first home owners and will classify the grant as equity for the balance (with savings history)

## Reduction in Monthly Loan Repayments\*

Loan Amount	At rate peak	At current rate (post 3rd Dec reduction)	\$Change	%Change
\$353,000 (Aust avg. loan)**	\$2,999	\$2,266	-\$733	-32%
\$297,000 (SHF avg. loan)**	\$2,553	\$1,907	-\$616	-32%

\*Average standard variable rate from major banks (peak July 08: 9.62%, current: 6.65%)

\*\*Aust avg. loan from Australian Financial Group (AFG) Nov. 2008; Stockland Home Finance (SHF) avg. loan from all loans taken

**"It's time to kick your rent habit."**

Serentiy 21  
by Metricon  
Lot 2029, 400m<sup>2</sup>  
**\$309,956**

- Site costs
- Tiles to entry, kitchen, meals, family room & wet area
- Carpet
- Down lights
- Concrete drive way and path to front door
- Fly screens
- Clothes line
- Letter box and antenna

**\$447 per week**

MERENDA VILLAGES

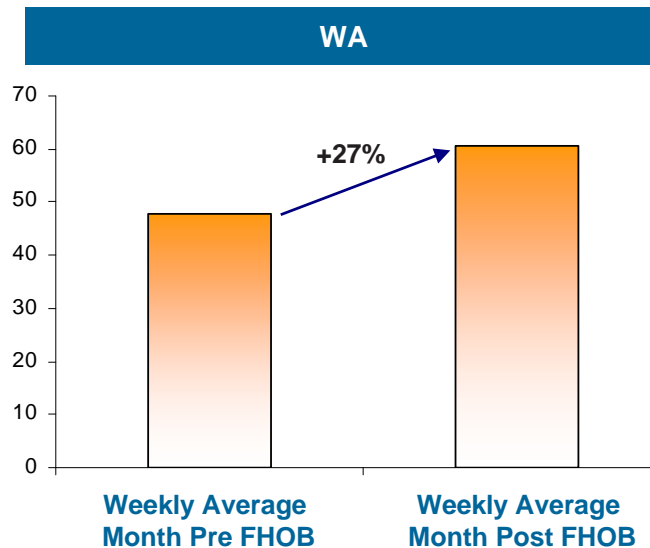
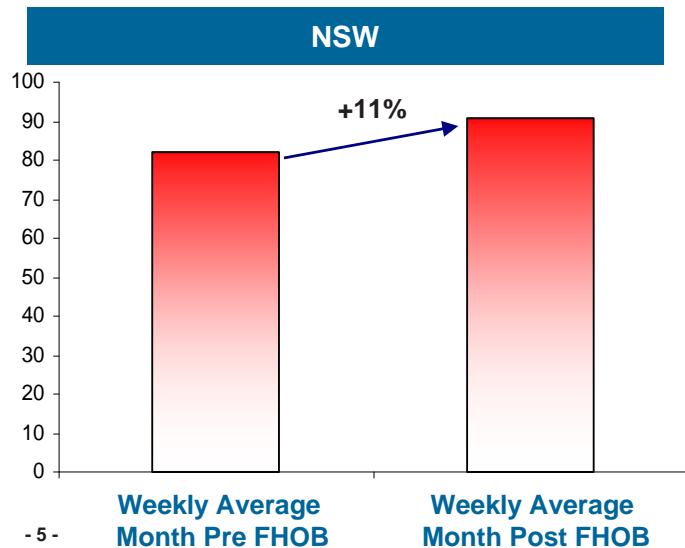
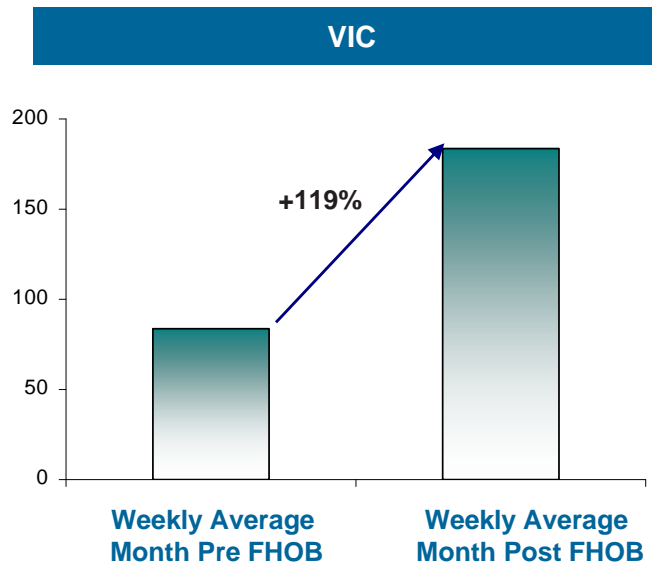
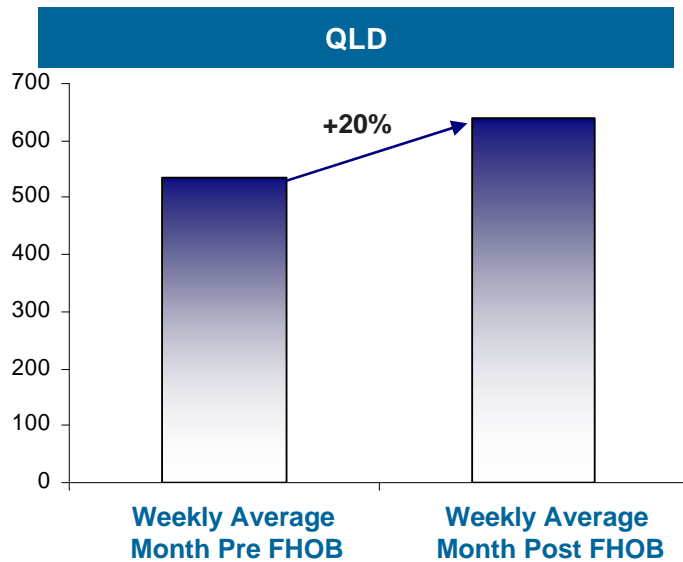
Full terms & conditions online [startbuilding.com.au](http://startbuilding.com.au)

**Stop Renting. Start Building.**  
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Stockland

# Residential outlook – impact of FHOB and rate cuts

## Residential Communities enquiry levels



- 90% of Australians 20yo+ who have not bought property before are aware of the FHOB\*
- 24% of the same group who were not considering buying in the next 6 months have now changed their minds\*
- Enquiry is higher in all states – and conversion rates are increasing
- Nov 08 – highest month for net deposits since Sept 07

Source: \*National Omnibus Survey 30 Nov 2008; Stockland Internal Data

# Residential super lot sales

- FY09 guidance includes super lot sales representing circa 30% of Residential gross margin
- These sales comprise normal course of business sales (e.g., school sites, builder sales) plus a number of bulk project disposals
- Normal course of business sales are tougher, but generally on track
- Bulk project disposals – one achieved at Craigieburn, VIC (completion 1H09) and several more in active negotiations, due to complete in 2H09
- Super lot sales will be skewed to 2H09
- Update will be provided with 1H09 results

# Residential inventory

- A detailed review of all Stockland residential projects has been conducted as part of the six monthly financial reporting cycle
- Each project is assessed on the lower of cost or net realisable value (no upward revaluations). Underlying value of the total Residential portfolio is significantly higher than current book value
- Provision required of around \$105m after-tax against inventory values and will be reflected in 1H09 results
- The provision represents 5% of total Australian residential inventory book value and is attributable to:
  - Projects pitched at the top end – these are being reconfigured to appeal more broadly
  - Projects originally held for development at lower margins that will now be sold
  - Finished stock, particularly top end apartments
- No additional write-downs are anticipated in FY09 unless market conditions deteriorate materially



# Commercial Property outlook

## Demand

- Retailers are becoming increasingly cautious
- Office demand falling in line with declining business sentiment and white collar job losses
- Industrial demand likely to remain soft

## Supply

- Many retail and office development projects are being shelved across the industry due to lack of finance and/or tenant pre-commitment
- Sublease office space increasing but not yet a major concern

## Rents

- Retail rental growth slowing
- Office lease incentives increasing

## Asset Valuations

- Cap rate softening is expected to continue, particularly in lower quality assets



# Commercial Property update

- A review of Stockland's development pipeline currently underway – a number of projects will be deferred until capital markets improve
- Most projects are redevelopments of existing income producing assets – no significant holding costs
- Average 50bps cap rate expansion since 30 June 08, partially offset by rental growth. Total revaluation decrement \$350m - \$400m (below-the-line)
- Average cap rate at Dec 08 - 7.2%
- FY09 'like for like' rental growth 4% - expected to slow in FY10
- Asset sales in 1H09:

Property	Sale price (\$m)	Initial Yield	Settlement
M4 Greystanes Industrial Park	53.5	7.9%	1H09
Batemans Bay / Bridge Plaza	80.5	6.9%	1H09
Amory Gardens, Ashfield	29.1	7.8%	1H09
300 Ann Street, Brisbane	38.0	8.6%	1H09
Sydney Orbital Park, Smeaton Grange	10.0	8.7%	1H09
<b>Total unconditional sales</b>	<b>211.1</b>		
<b>Conditional sale</b>			
Edmund Barton Building, Canberra	186.0	7.3%	2H09
<b>Total sold</b>	<b>397.1</b>		

# Stockland UK update

- Inventory write-down in 1H09 results – around \$50m after tax as flagged in October 2008
- Break even FY09 operating profit
- No significant new capital to be invested in the short term
- Goodwill impairment may be higher than anticipated
- Continuing to manage the income producing asset portfolio and progressing developments with minimal capital spend

# EPS/DPS

- Operating businesses remain on track to achieve full year forecasts. Forecast Residential profit will be achieved if current rate of single lot sales is maintained and remaining bulk sales are achieved
- Revised guidance - FY09 EPS post the adjustments outlined below is 35.0c
- Estimated FY09 DPS is 34.0c , in line with current payout ratio\*. As previously flagged earnings will be skewed to 2H09, however the 1H09 DPS will be 50% of the estimated full year payment – estimate 17.0c
- DRP will be operational for 1H09 payment, and will be underwritten to around 50% of total payment in addition to natural take-up

	(cps)
<b>Prior FY09 EPS Guidance – Operating Profit</b>	<b>46.7</b>
UK inventory write-down	(3.7)
Residential inventory write-down	(6.8)
Dilution from :	
October \$300m placement	(0.3)
Strategic stake in FKP/AVE (low dividend yield)	(0.1)
Strategic stake in GPT (low dividend yield and share issue)	(0.5)
DRP underwrite and smoothing of 1H v 2H distributions	(0.3)
<b>Current FY09 EPS Guidance</b>	<b>35.0</b>

	(cps)
<b>Current FY09 DPS Guidance</b>	<b>34.0</b>
<u>* FY09 Payout Ratio</u>	
100% Trust	
90% Corporation	



# Capital management - debt covenants

- All lenders have one set of covenants:

- Total liabilities / total tangible assets (TL/TTA): 45%

- Interest cover: 2:1 (write-downs and provisions are excluded from calculation)

	TL/TTA	D/TTA
30 Jun 08	39.9%	28.9%
31 Dec 08 (est.)	39.3%	32.0%

- Target TL/TTA < 40% - equivalent to minimum \$1.1bn of debt headroom
- Gearing covenant limited to Stockland's balance sheet liabilities with no look through gearing
- Balance sheet volatility relating to MTM of derivatives and the gross up of retirement living obligations are removed in calculation of covenants
- Debt/total tangible assets (D/TTA) is not a covenant but 25-35% is our target range
- Estimated NTA at Dec 08 - \$4.80

# Capital management - debt facilities

- All debt unsecured, no CMBS etc
- Diversity of debt sources and maturity profile reduces refinancing risk
- All FY09 debt refinancing completed
- Maturities in FY10 limited to two bank facilities
  - one already under negotiation

	Weighted average cost of debt	Weighted average maturity
30 Jun 08	6.7%	6.1 yrs
31 Dec 08 (est.)	6.7%	5.0 yrs

# Capital management - liquidity

- Capital markets remain tough and the following initiatives are in place to ensure Stockland has sufficient liquidity:
  - No restocking of residential inventory (average spend of \$200m pa in FY06-FY08)
  - Deferral of uncommitted Commercial Property development pipeline
  - Further disposal of assets (through sale and JV)
  - Focus on cost efficiencies
  - FY10 and FY11 apartment completions to contribute significant inflow (current pre-sales \$350m)
  - Direct GPT shareholding to be transferred into off-balance sheet arrangement
- Circa \$500m of available committed facilities currently in place



# Strategy – responding to changing market dynamics

## Global Relevance



- Strategic goal to appeal to global investors; will aim for Top 20 EPRA/NAREIT - currently 24<sup>th</sup>

## Diversity



- Competitive advantage from diversification. Aim to be Australia's pre-eminent brownfield and greenfield mixed use developer as urban consolidation increases

## Earnings Mix



- Aim to move towards more annuity income by acquisition of investment property and retirement DMFs at the right time in the cycle
- Strategic reduction in size of residential land bank. Good visibility of residential profits (3 - 5 years +) from existing projects enables us to:
  - reduce size of residential landbank as longer term IRR driven returns are not fully valued by equity investors
  - reduce capitalised interest and free up capital through orderly sale and reduced acquisitions

## Capital Management



- Distribution policy to be reviewed for FY10 onwards, moving towards AFFO based structure
- Committed to maintaining our S&P A- credit rating

# Strategic investments

## FKP

- Retirement living exclusive dealing period expired 15 December 2008
- Due diligence largely complete, but not sufficient to enable proposal to be presented to FKP Board
- Ongoing first right of refusal
- Will continue to work with FKP Board and management

## GPT

- Happy with current investment; long-term strategy currently under consideration

## Aevum

- No current intention to increase stake

# Summary

- Underlying Operating Profit performance in line with guidance, but downside risk remains
- Strong residential sales from first home owners
- Provisions required against residential inventories
- Commercial Property rents holding up, but cap rates softening
- Sound balance sheet, bolstered by asset sales and underwritten DRP
- Strategy adapting to changing market dynamics:
  - committed to coming through downturn in good shape
  - and cementing our position as Australia's leading diversified property group



Stockland Corporation Limited  
ACN 000 181 733

Stockland Trust Management Limited  
ACN 001 900 741

25th Floor  
133 Castlereagh Street  
SYDNEY NSW 2000

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