



## **Residential Communities – Investor Briefing**

Mark Hunter, CEO Residential

23 November 2011

# **Agenda**

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- 1. Our Residential Communities strategy**
- 2. Bringing our strategy to life**
- 3. Financial performance**
- 4. Market Update**

# Stockland is the leading Residential Community developer in Australia

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- **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

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## 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

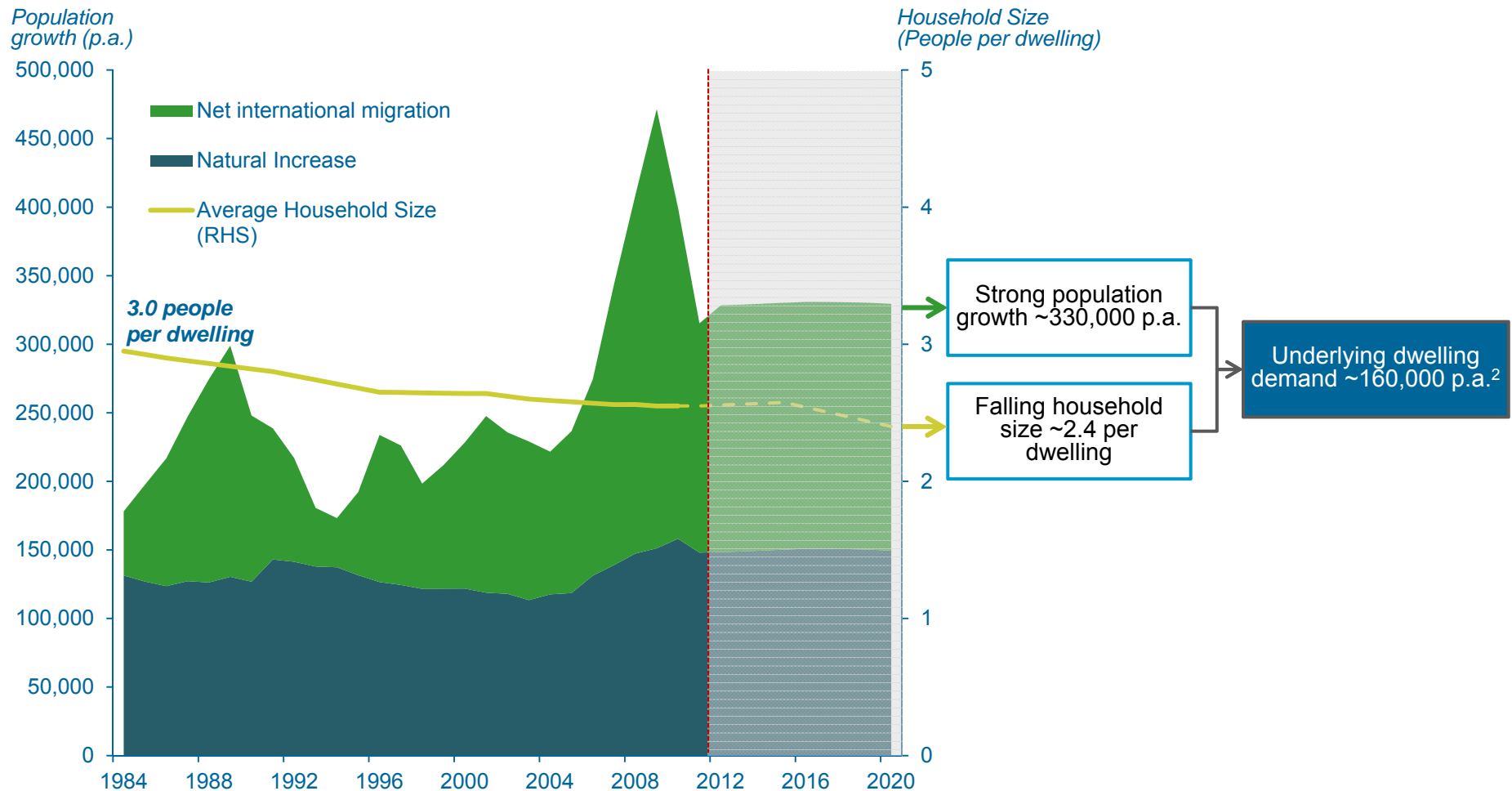
## Our competitive advantages

- 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

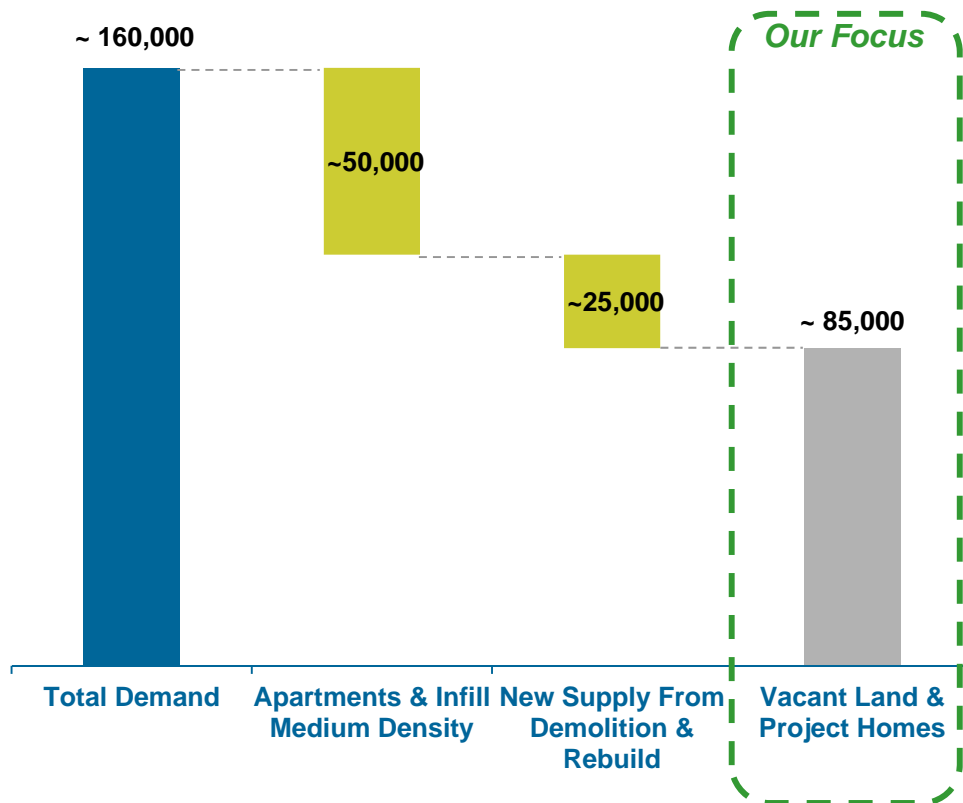
- Acquisition hurdles of >20% IRR, 25% - 30% EBIT margins
- Target market share of 25%+ in active corridors

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

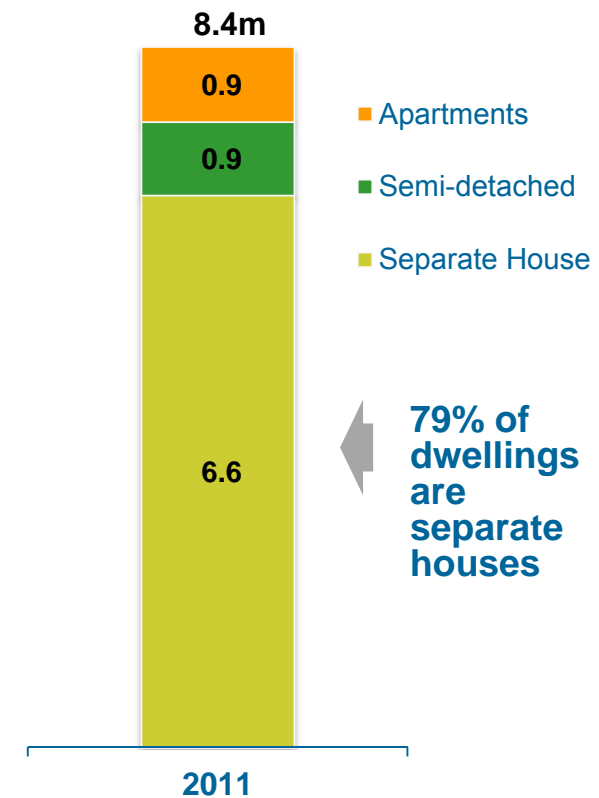


# Vacant land sales are the largest part of the market

Average annual underlying demand<sup>1</sup>



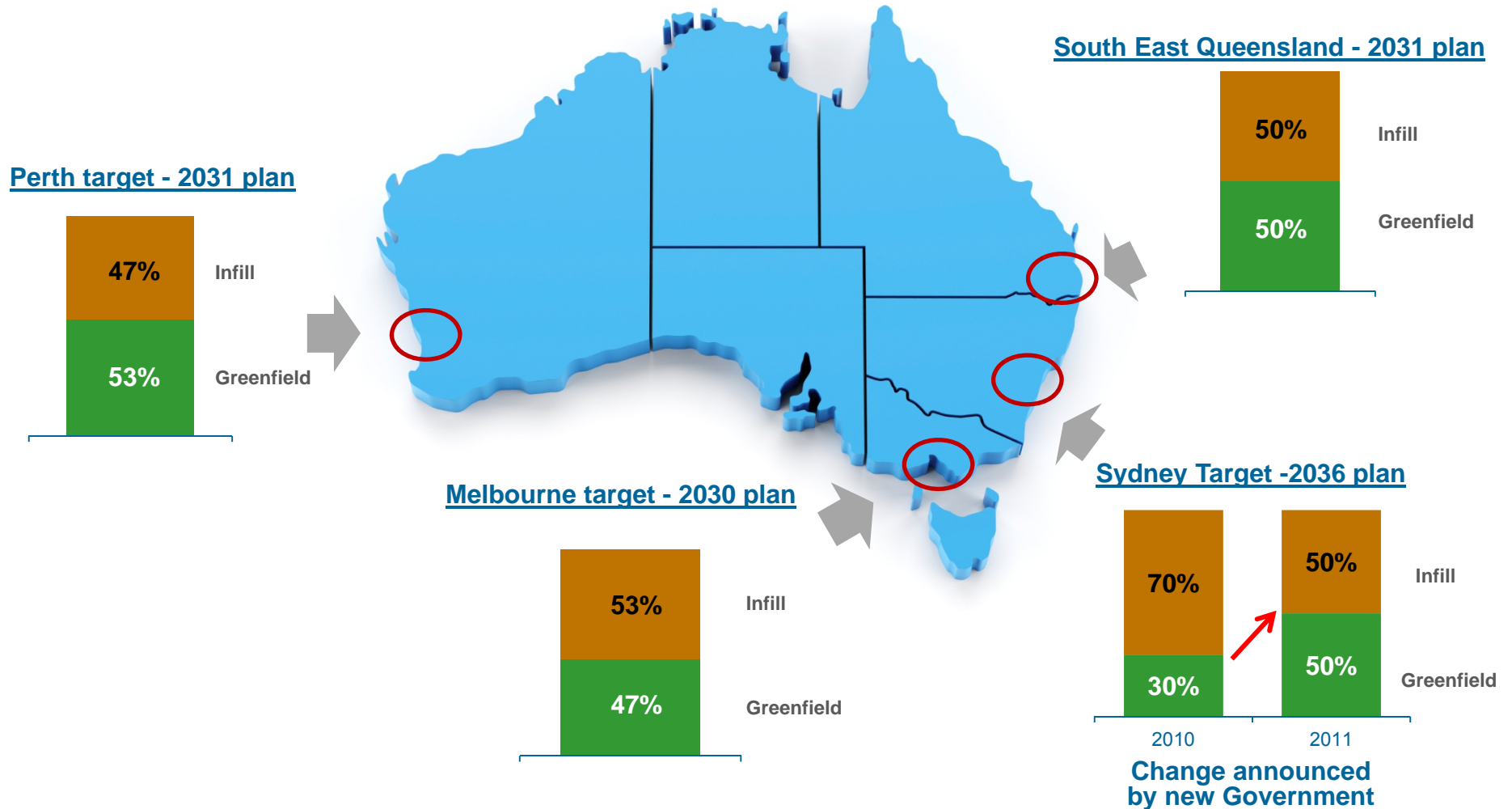
Australian established dwelling stock<sup>1</sup>





# Detached homes in greenfield areas will remain at least 50% of total supply

State Governments acknowledge that greenfield is key to meet future urban housing needs<sup>1</sup>



# Vacant land is lower risk and less capital intensive than building houses and apartments

## Vacant land sales

- Largest market segment
- Can acquire in large parcels with economies of scale
- Staged capital investment
- Can quickly react to changing market demands and product types
- Production platform very scalable
- Consistent and repeatable processes across geographies
- Higher risk adjusted returns than built form

***Our focus***

## House building

- Greater exposure to supply chain risk
- Rigorous compliance requirements
- Labour intensive
- Low barriers to entry
- Low margins on built form
- Lengthy product warranty liability

*We partner with the largest national homebuilders*

## Apartments

- Large upfront and ongoing capital requirement
- Income deferred until project completion
- High approval hurdles in infill areas
- Limited product flexibility once commenced
- Limited number of scalable development sites
- Lengthy product warranty liability

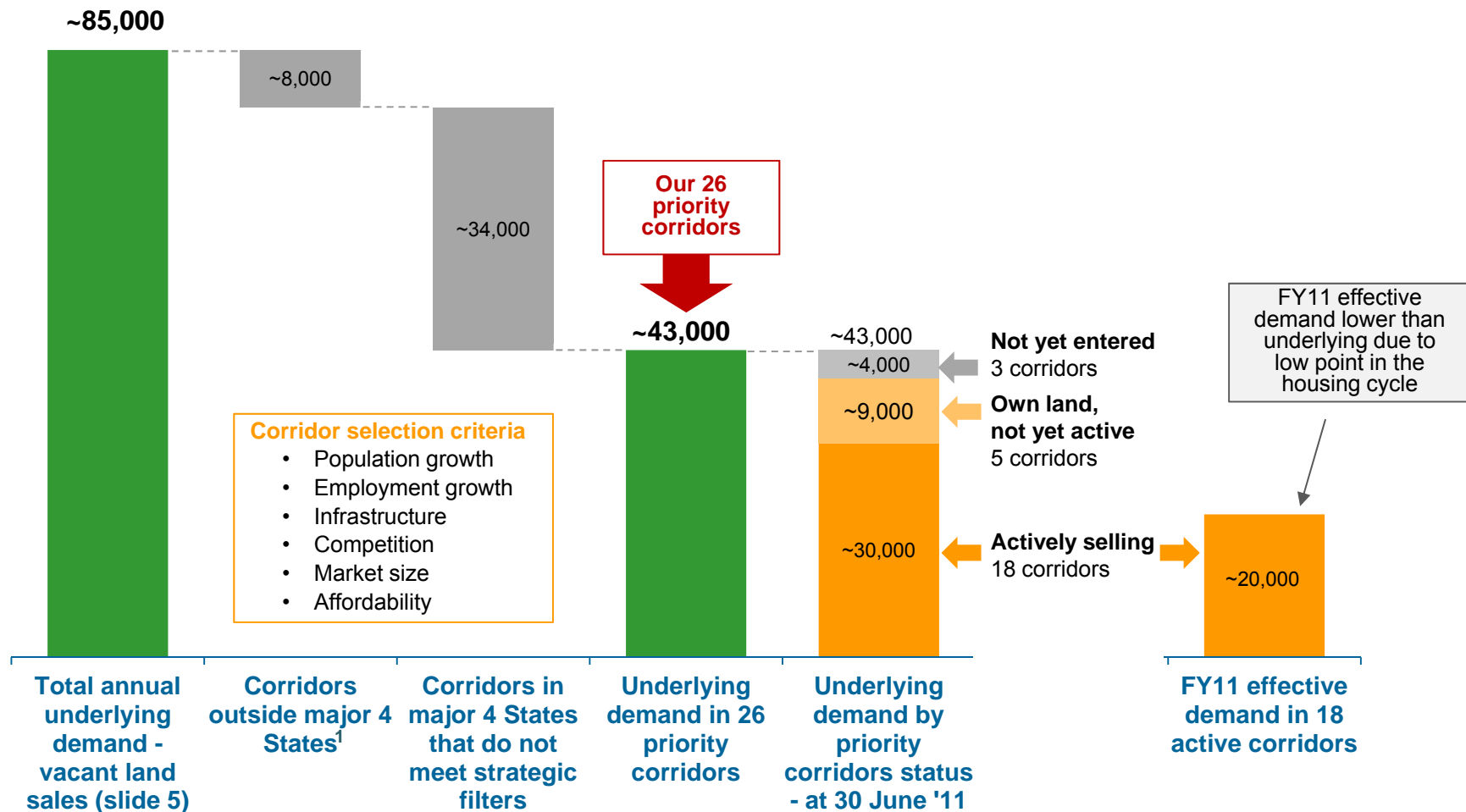
*We are moving out of this segment. Down to ~\$0.15bn<sup>1</sup> funds employed*

**We are not a builder and do not take on built form risk**



# 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

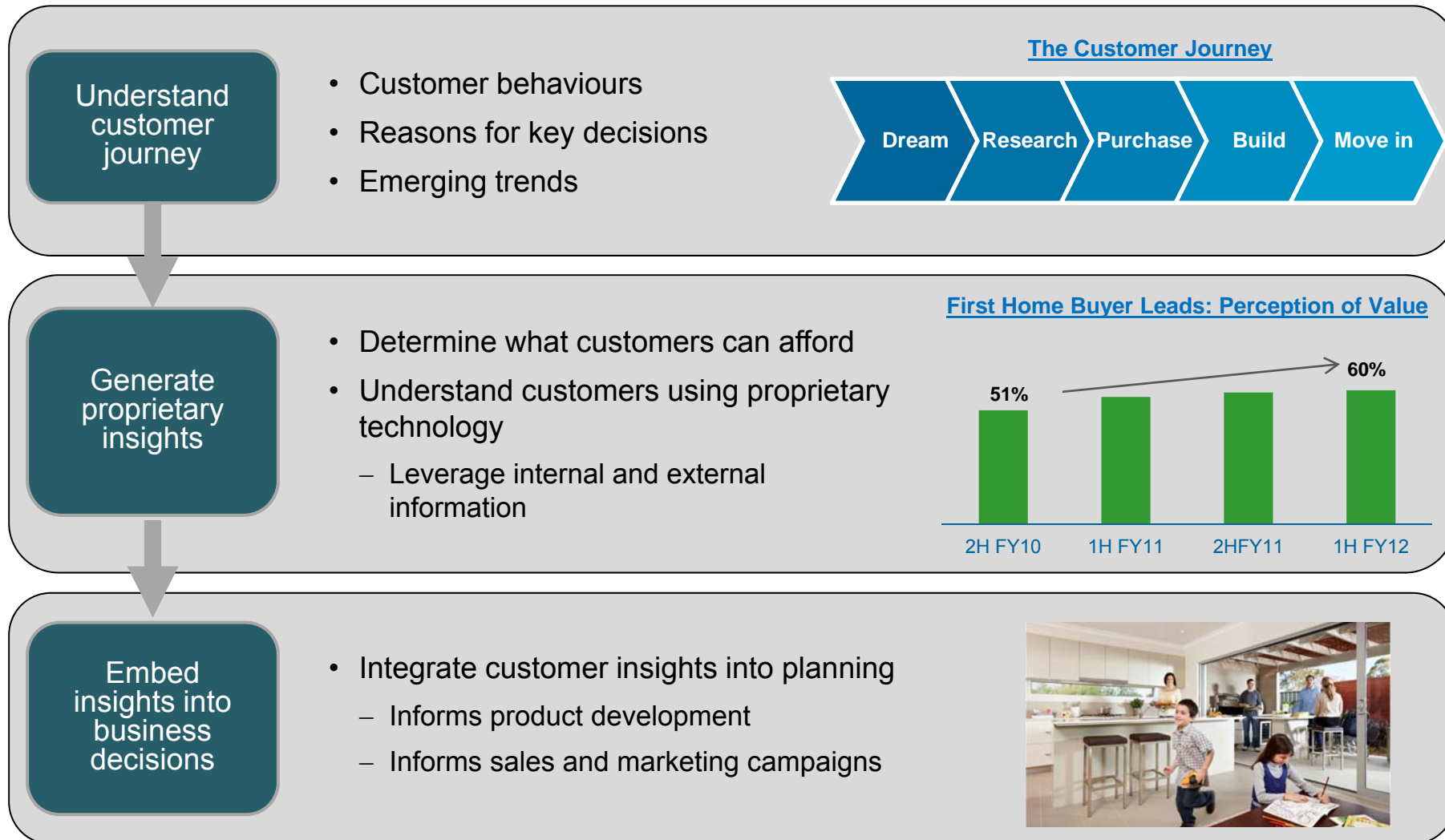
### 4. Community creation

- 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

# Customer Insight: informs our business decisions



# Customer Insight: we know who our customers are, what they can afford and what they value<sup>1</sup>

	First Home Buyer	Upgrader	Investor	Retirees
				
<b>Description</b>	<ul style="list-style-type: none"> <li>• Young couple, singles</li> <li>• Looking to get into the market</li> </ul>	<ul style="list-style-type: none"> <li>• Families</li> <li>• Looking for more space for the family</li> </ul>	<ul style="list-style-type: none"> <li>• Private individuals looking to buy a safe, tax effective investment</li> </ul>	<ul style="list-style-type: none"> <li>• Retired couple or widow(er) 70+, looking for community, social affinity and support</li> </ul>
<b>Typical Household Income</b>	<ul style="list-style-type: none"> <li>• \$70,000 - \$80,000</li> </ul>	<ul style="list-style-type: none"> <li>• \$100,000 - \$125,000</li> </ul>	<ul style="list-style-type: none"> <li>• \$100,000 - \$125,000</li> </ul>	<ul style="list-style-type: none"> <li>• Wide ranging</li> </ul>
<b>House &amp; Land Purchasing Ability</b>	<ul style="list-style-type: none"> <li>• \$290,000 - \$350,000</li> </ul>	<ul style="list-style-type: none"> <li>• \$350,000 - \$475,000</li> </ul>	<ul style="list-style-type: none"> <li>• \$300,000 - \$375,000</li> </ul>	<ul style="list-style-type: none"> <li>• \$300,000 - \$425,000</li> </ul>
<b>Target Sales Composition</b>	20 – 30%	50 – 60%	15 – 25%	Stockland Retirement Living

# Product Development: more than just House and Land

## Leverage Market & Customer research

- Determine product demand and supply in key corridors
- Define the needs of all customer segments



## Village positioning

- Create different neighbourhoods within projects that appeal to different market segments
  - Enable sales off multiple fronts
  - Inform capital allocation decisions



## Targeted House & Land packaging

- Partner with builders to jointly market and deliver homes
- Our covenants ensure quality





# Product Development: innovative products from strong partnerships

## Affordable for first home buyers

Target price range: \$290,000 - \$350,000

- 3 bedroom, 2 bathrooms, 1 garage
- Typical lot size - 212 sqm (8.5m wide)
- House size<sup>1</sup> - 143sqm



*'Como' by  
Henley*

**From \$318,000  
at Eucalypt**

## Affordable for families

Target price range: \$350,000- \$475,000

- 4 bedroom, 2 bathrooms, 2 garage
- Typical lot size - 263 sqm (10.5m wide)
- House size<sup>1</sup> - 175 sqm



*'Monarch' by  
Porter Davis*

**From \$344,000  
at Highlands**



*'Larwood I' by  
Porter Davis*

**From \$312,000  
at Highlands**



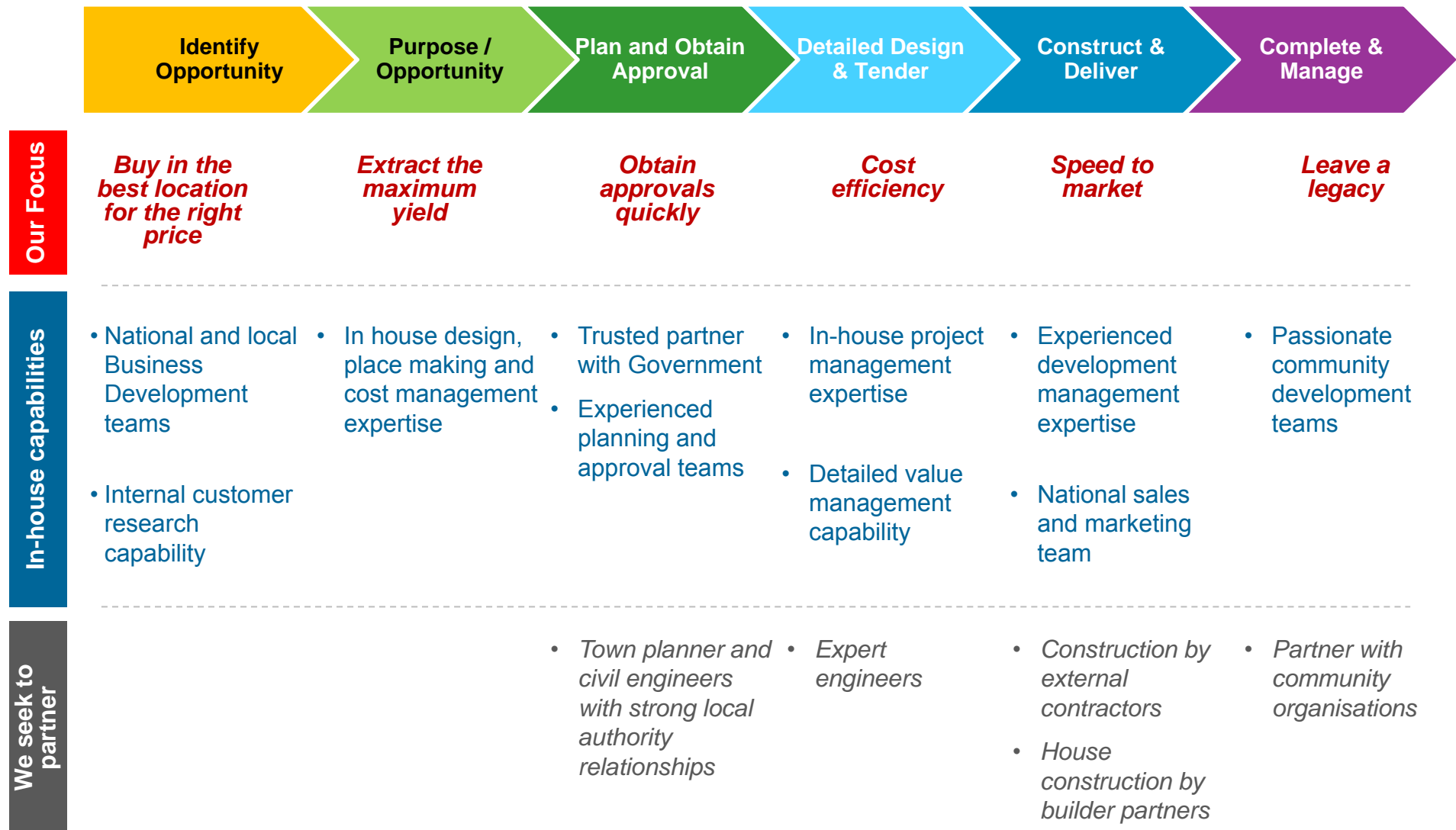
*'Monarch' by  
Porter Davis*



# Community Development: we create a better way to live



# Our scale enables us to invest in key capabilities



# Agenda

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**1. Our Residential Communities strategy**

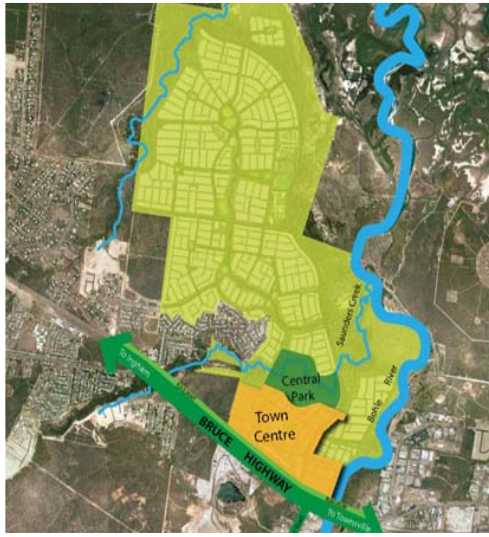
**2. Bringing our strategy to life**

**3. Financial performance**

**4. Market Update**

# North Shore Townsville - brings our 3-Rs together

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## Project snapshot

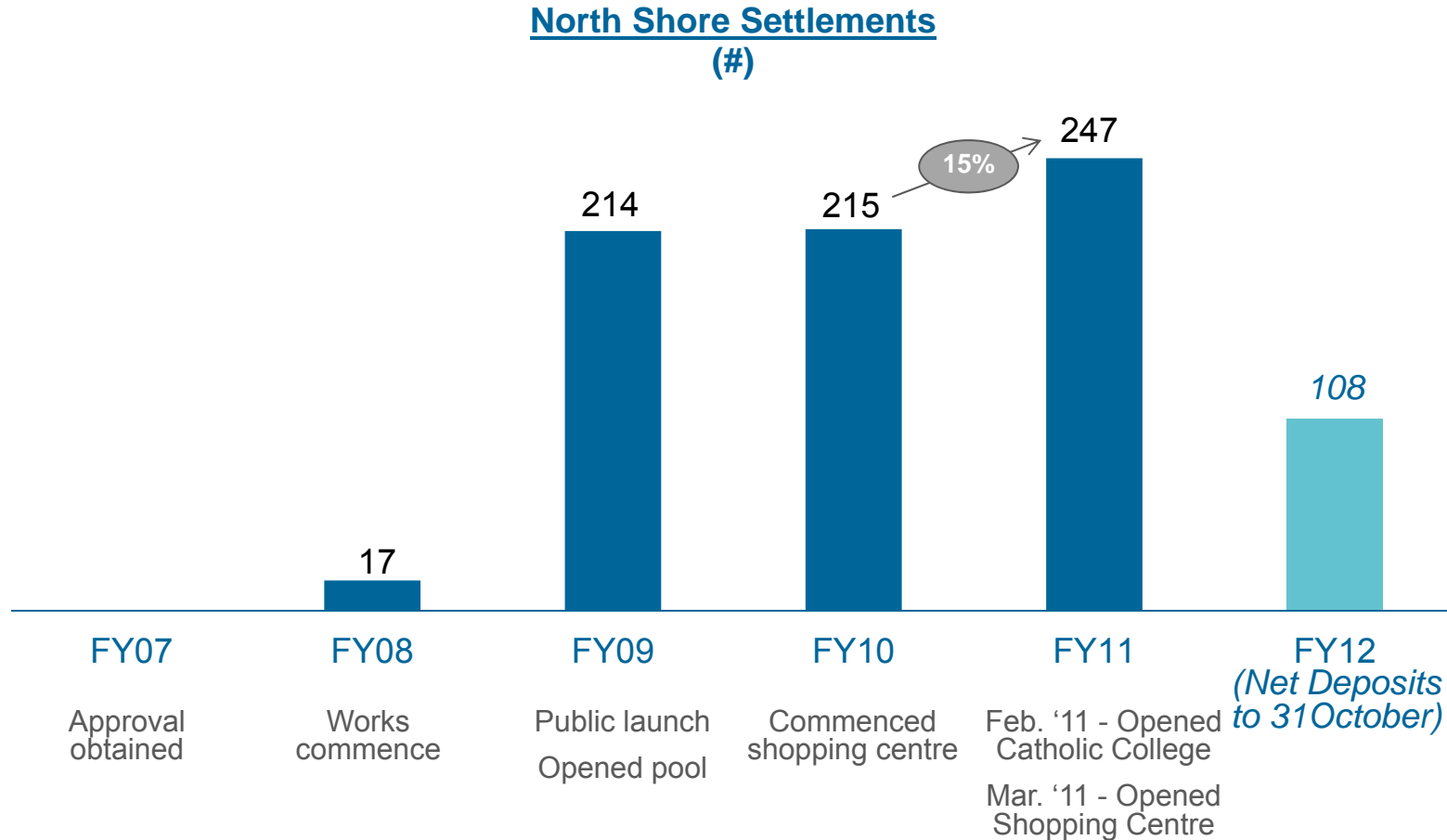
- Acquired in 2003 for \$6m
- 5,200 lot master planned community
- Over 800 lots sold to date

## Existing and future community

- Multiple residential 'villages'
- Stockland retail centre with Woolworths and 13 speciality shops and future expansion potential to 40,000 sqm
- Catholic school, leisure centre and public open spaces
- Over 7km of bike and walking trails
- Future amenity to include:
  - child care centre
  - additional school
  - community centres
  - sporting fields
  - 30+ km additional walking tracks

## Early delivery of community infrastructure in North Shore has driven strong sales

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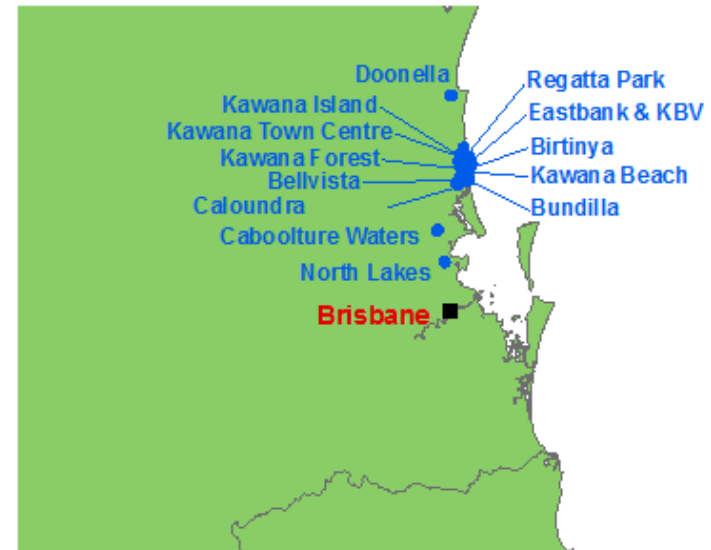


# Lensworth was Australia's largest ever residential land transaction

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## Lensworth Portfolio

- Portfolio acquired in December 2004
- Cost \$846m
- Portfolio comprised:
  - 29,600 lots
  - 17 projects including Caloundra, North Lakes and Highlands
  - Presence in 3 States (NSW, Vic, Qld)
  - A mix of active and long term strategic projects





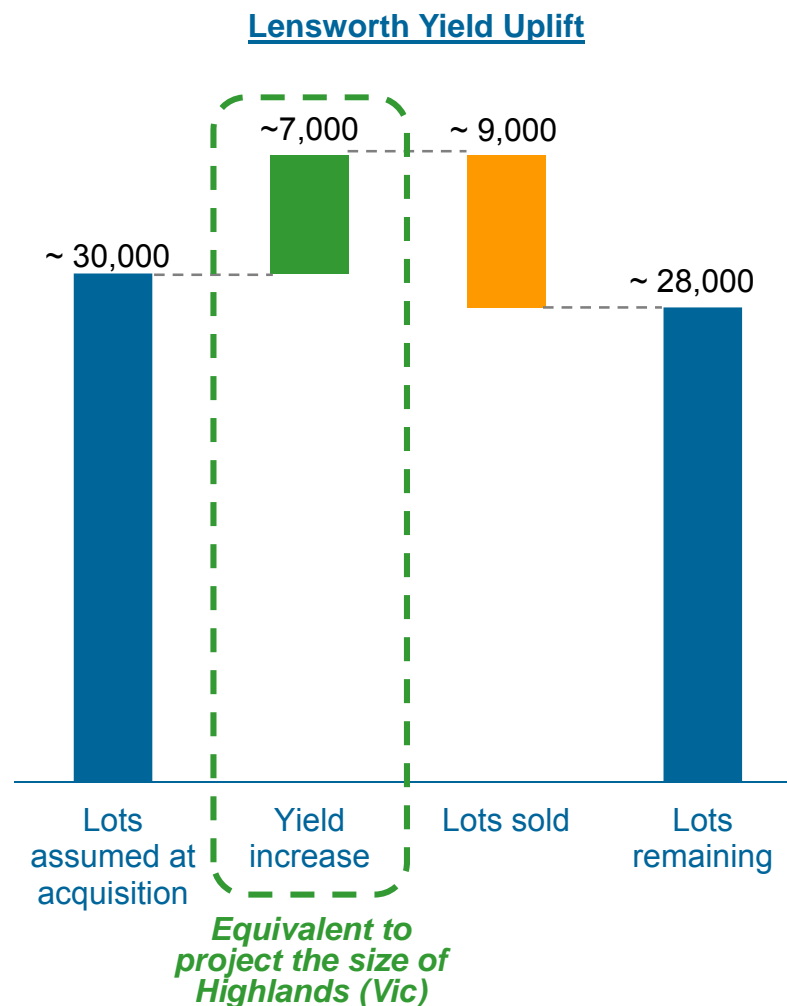
# The Lensworth portfolio has delivered excellent returns

## Portfolio performance

- Lots settled ~9,000
- Net revenue \$2.1bn
- EBIT margin 27%<sup>1</sup>
- Operating profit margin<sup>2</sup> 23%<sup>1</sup>
- Cash flow positive Sep 2011

## Yield increased by 7,000 lots through:

- More efficient urban design
- More efficient product mix
- Partnerships with approval authorities



## **Lensworth taught us several lessons which we have used to refine our strategy**

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- 1. We create significant value when we buy large projects e.g. North Lakes, Highlands**
- 2. We have applied these lessons to recent acquisitions e.g. Vale, Lockerbie, Leppington**
- 3. Take a portfolio approach and don't be afraid to let go of poor performing projects e.g. Wallarah**
- 4. Important to have a targeted corridor strategy**

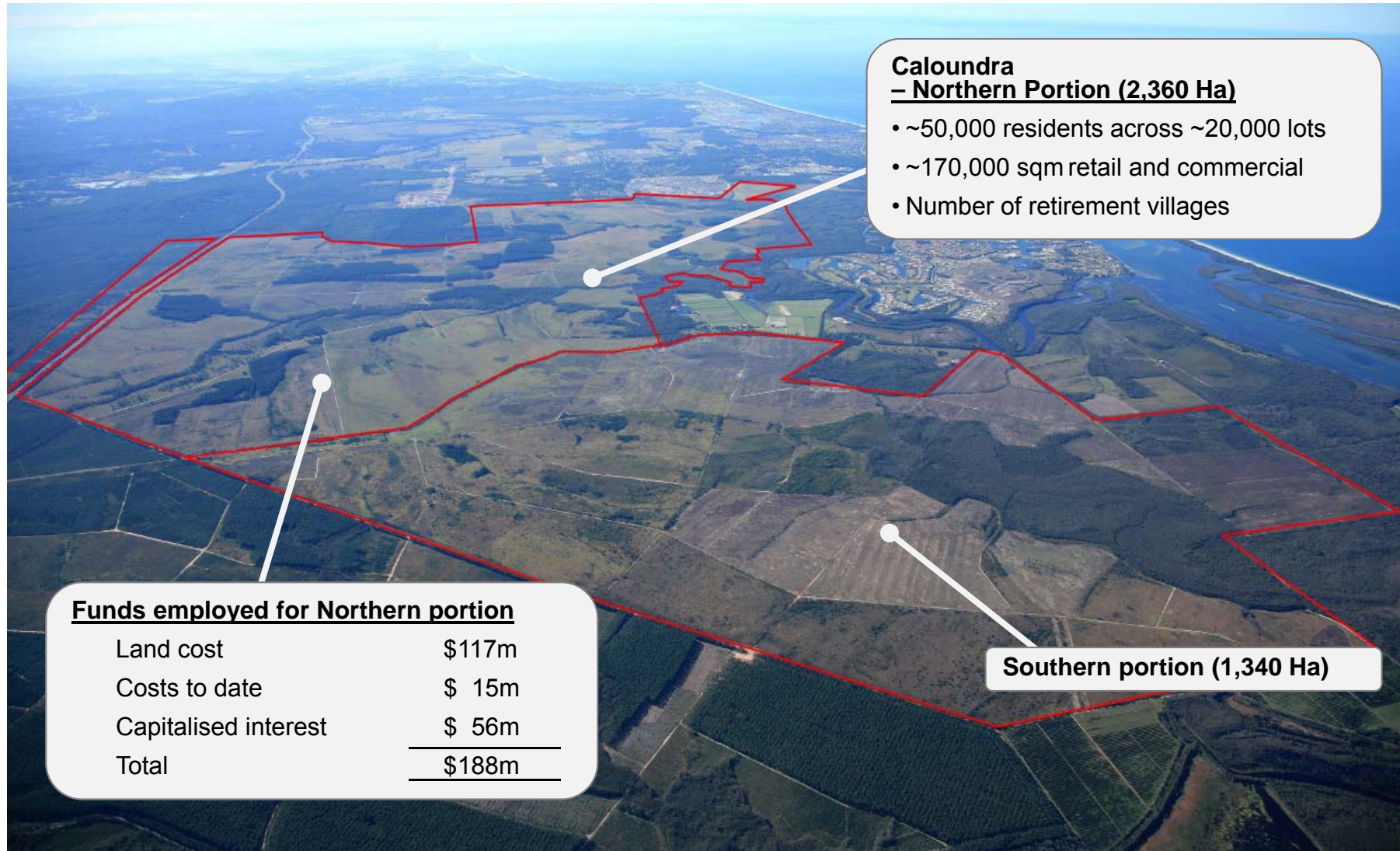


*North Lakes (Qld)*



*Highlands (Vic)*

# Caloundra: Australia's largest project will deliver significant cross business synergies

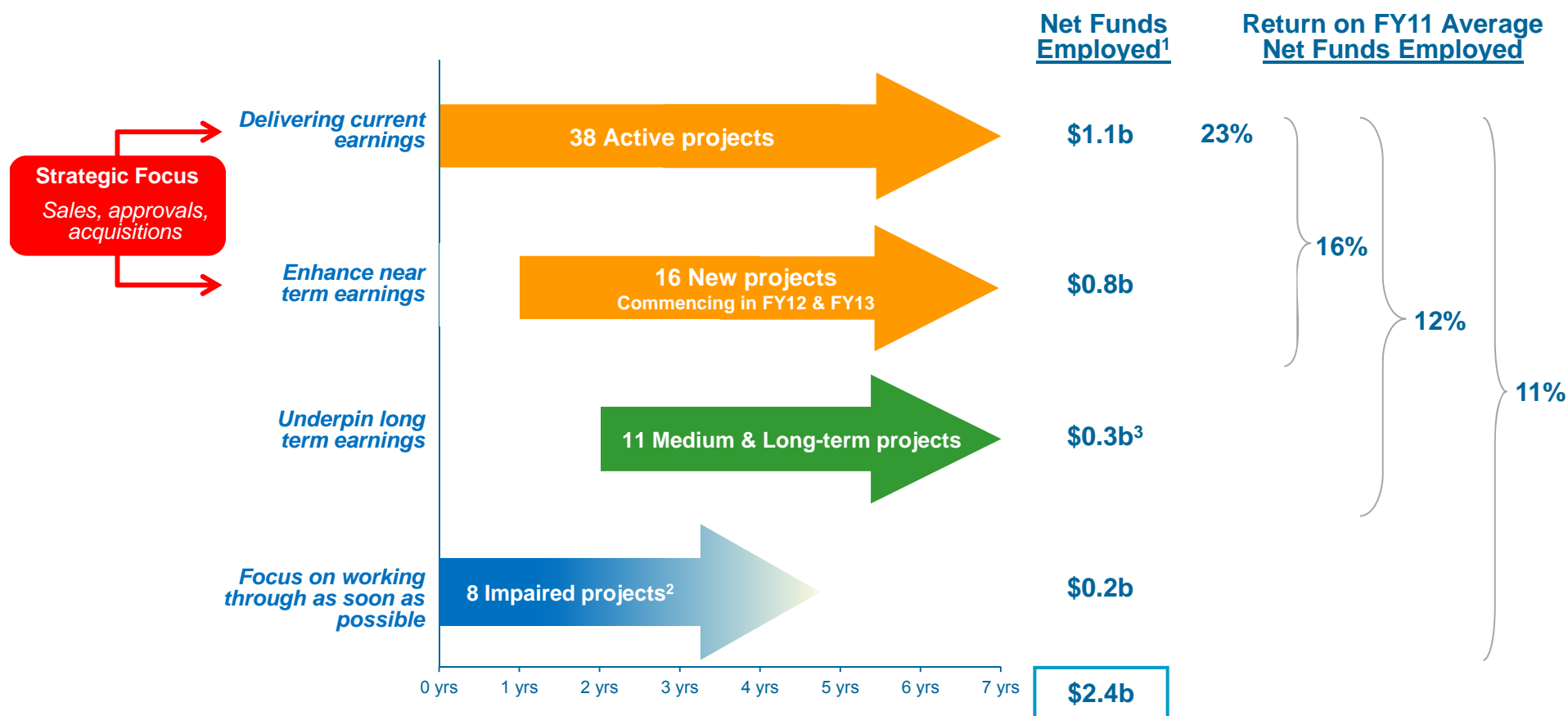


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# Speed to market delivers strong returns on funds employed



*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

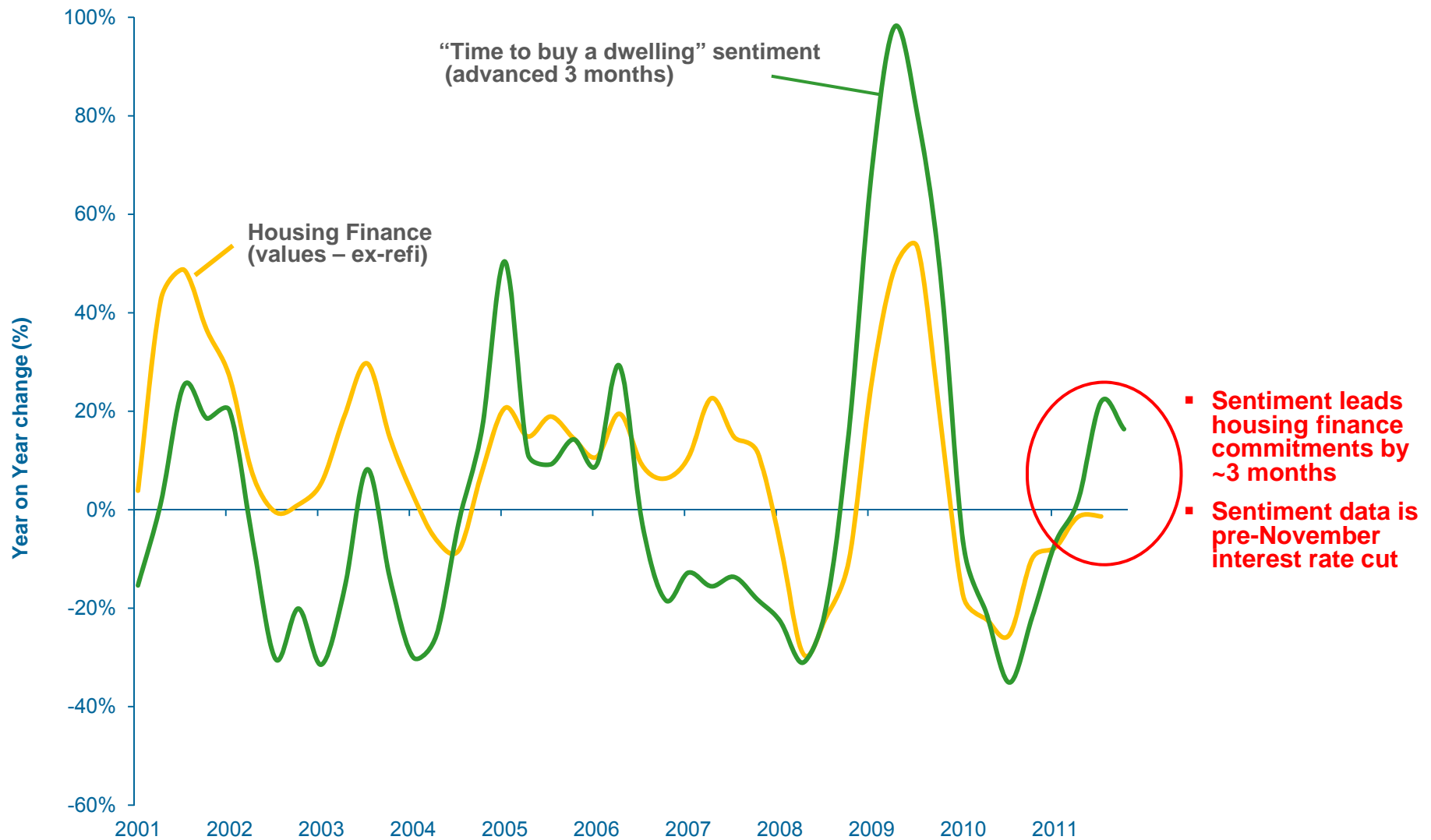
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# National housing sentiment points to improving activity<sup>1</sup>

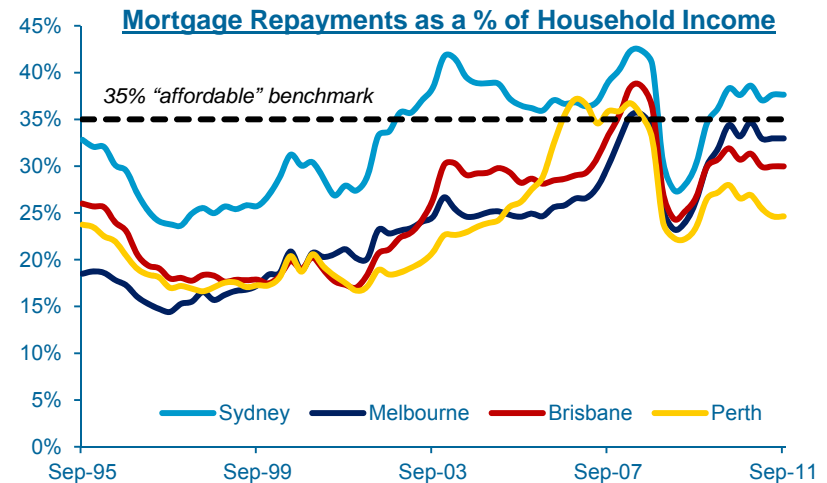


# Affordability has improved

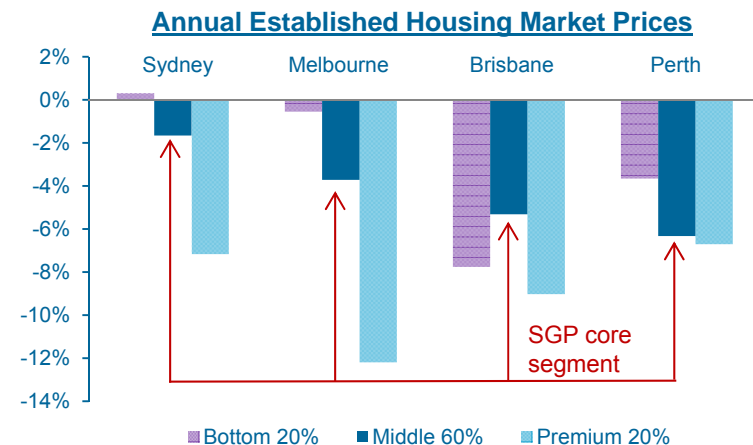
- Affordability improving due to:
  - Weak established house prices
  - Falling interest rate environment
  - Rising incomes
- Melbourne, Brisbane and Perth affordability remains below 35% benchmark
- Weakness in established market mostly at premium end:
  - Middle market down 3.3% (our core segment)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

**By focussing on affordability we can continue to grow through interest rate cycles**

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



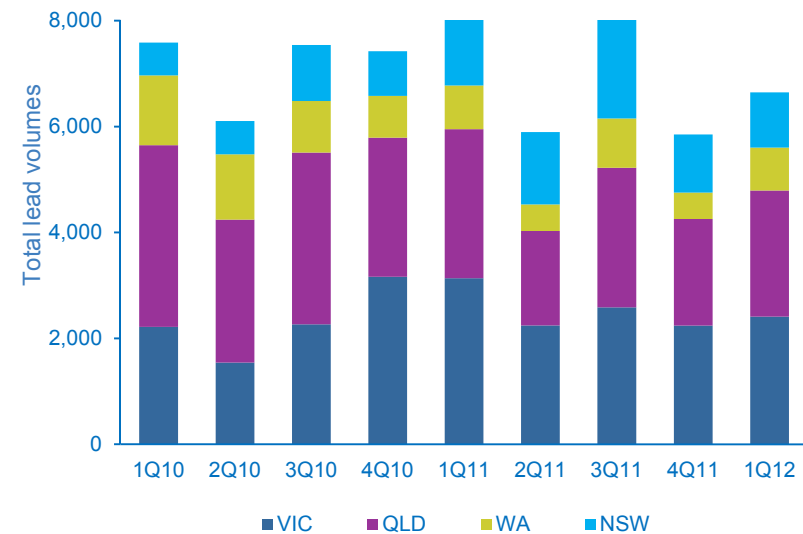
## Stockland's core segment is more robust<sup>2</sup>



## Our lead volumes are starting to improve

- Latest quarter leads up on prior quarter
- Growth in latest quarter mainly in WA and Qld
- Reflective of improving customer sentiment and anticipation of interest rate cuts
- Prevalence of first home buyers reflects our focus on value, affordability and product development

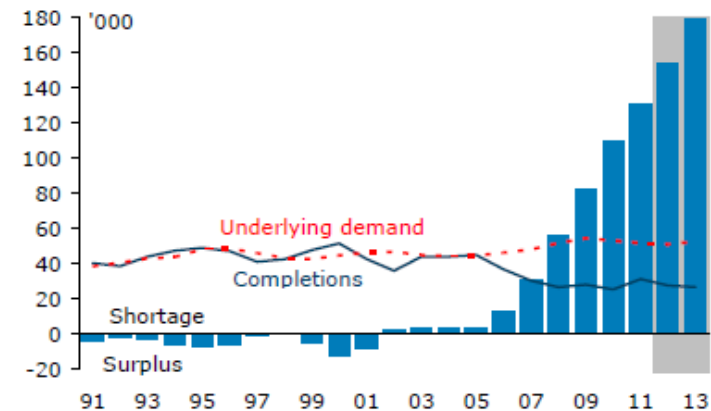
### Stockland customer leads<sup>1</sup>



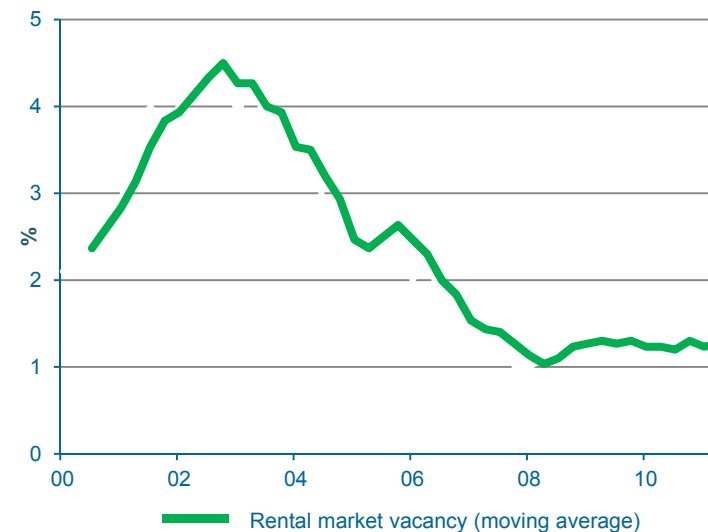
# NSW: Acute undersupply continues to grow

- Current ~130,000 housing supply deficit still growing due to significant fragmentation of land ownership
- Rental market remains very tight (1.3%) and rents are growing
- First home buyers returning to market, driven by affordability
  - Gap between owning and renting is narrowing

## Undersupply driving up shortage<sup>1</sup>



## Rental market vacancy very low<sup>2</sup>



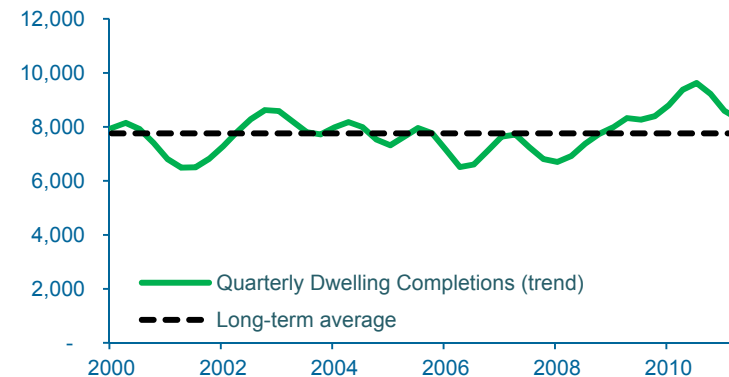
**Supply shortage will support large scale projects such as Leppington**

## Vic: Returning to historic levels of activity

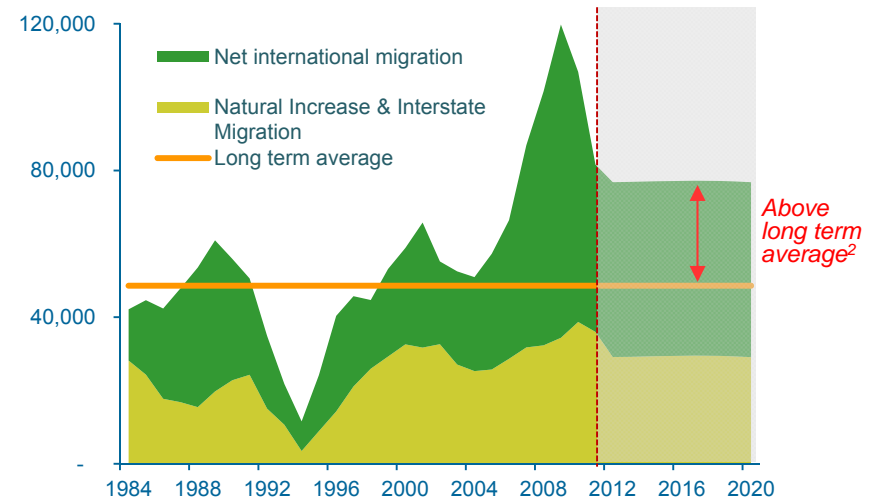
- Dwelling completions down 25% from peak but still above long term average
- Underlying demand underpinned by robust net international migration
- Victorian greenfield market still remains very affordable, driven through innovative and pro-active Local and State Governments
- Market expected to further ease through FY12

**Well positioned and affordable projects such as Allura still selling well**

### Dwelling completions returning to long term average levels<sup>1</sup>



### Annual population growth remains above long term average<sup>1</sup>

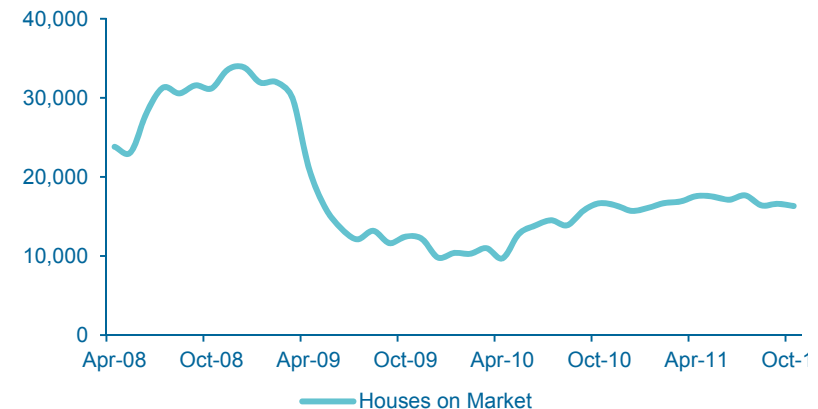


# WA: improving affordability flowing through to housing finance

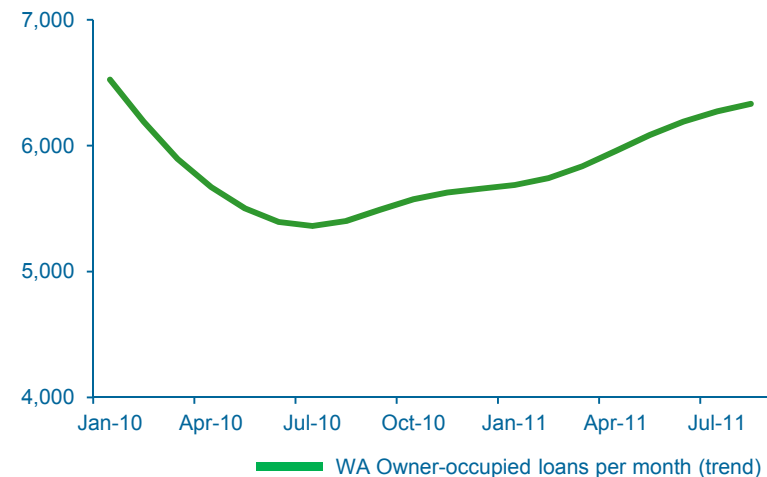
- Established market listings beginning downward trend as sellers meet the market
- Housing finance trending up
- Household income continues to rise on the back of mining investment
- Housing affordability continues to improve

**Affordable product still selling well such as HAF<sup>1</sup> offer at Newhaven**

## Houses on market starting to come down<sup>2</sup>



## Owner-occupied loans trending up<sup>3</sup>



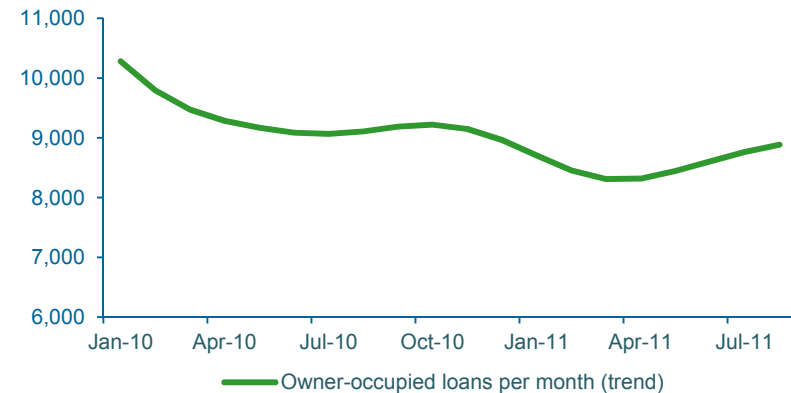


## Qld: coming off the bottom of the cycle

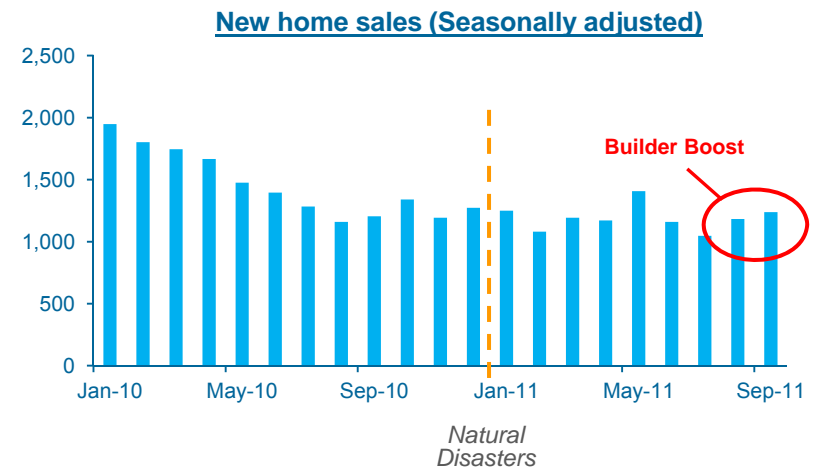
- Housing finance trending up
- New homes sales up 16% in last two months
- Recent Builder Boost driving enquiry for affordable new homes
- Rental vacancy rates continue to fall

**Strong demand for affordable product  
e.g. North Lakes**

### Owner-occupied loans trending up<sup>1</sup>



### Builder boost has increased new home sales<sup>2</sup>



## Recap of key points

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- 1. We are the leading and largest residential communities developer in Australia. This scale gives us advantages and access to capabilities**
- 2. We have a unique and geographically diverse portfolio comprising 73 projects, over 90,000 lots, positioning us well for future growth - 16 projects to be launched in the next two years. There is still significant opportunity to grow in the market**
- 3. Our strategy remains focussed on large scale greenfield affordable projects with speed to market. We focus on first mover advantage**
- 4. Our proven land acquisitions and development capability, deep customer insight, affordable product development platform and meaningful community development initiatives set us apart from our peers**
- 5. This culminates in us consistently delivering strong returns and a better way to live for our customers**