Retirement Living Investor Briefing

David Pitman, CEO Retirement Living & Head of Group Strategy

3 September 2009

Stockland

Agenda

1. Why Retirement Living is a good investment for Stockland
2. Our strategy
3. Wrap up
4. Appendix
    - Our model in detail
    - Useful rules-of-thumb
    - Recap on how we performed in FY09
    - Valuing Retirement Living

‘Retirement Living’ is Real Estate, not Aged Care or Nursing Homes

- Retirement villages are active communities of 65 to 85 year old independent residents
- Unlike Aged Care, retirement villages offer only basic nursing services
- Our residents travel or participate in sport, clubs, and other community activities
- Stockland has no Aged Care and no Nursing Homes

Retirement Living combines two basic property businesses and plays to Stockland's core strengths

Residential development

- Acquire land, re-zone, masterplan a community, build a village
- Development profit
  - Sales revenue less costs of development
  - Lower than pure residential due to community facilities
- KPIs: $/m^2, % development margin, development IRR

+

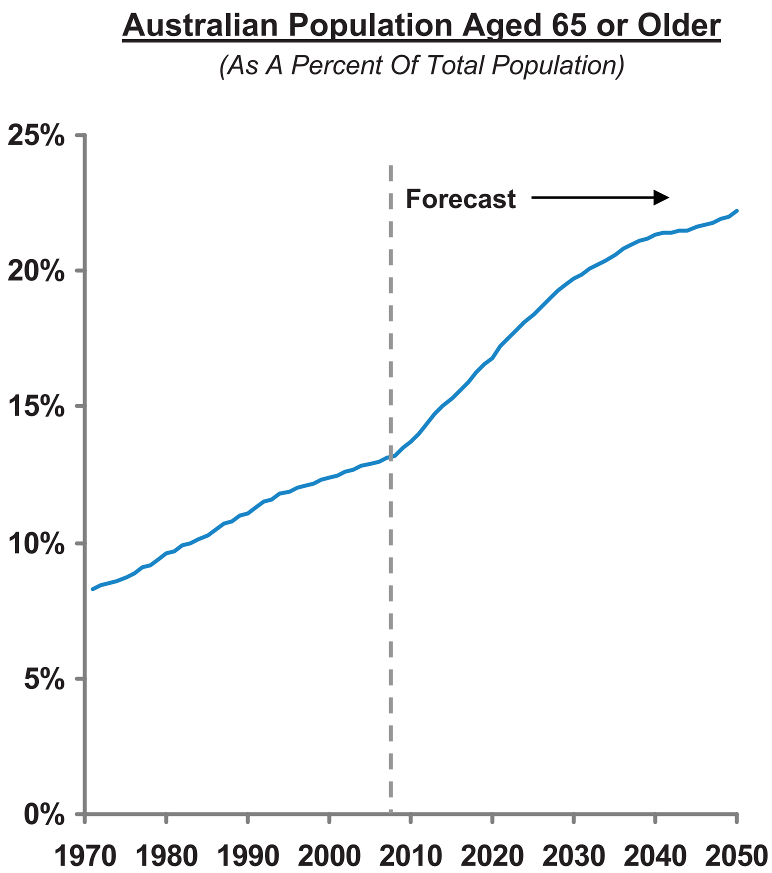
Asset management

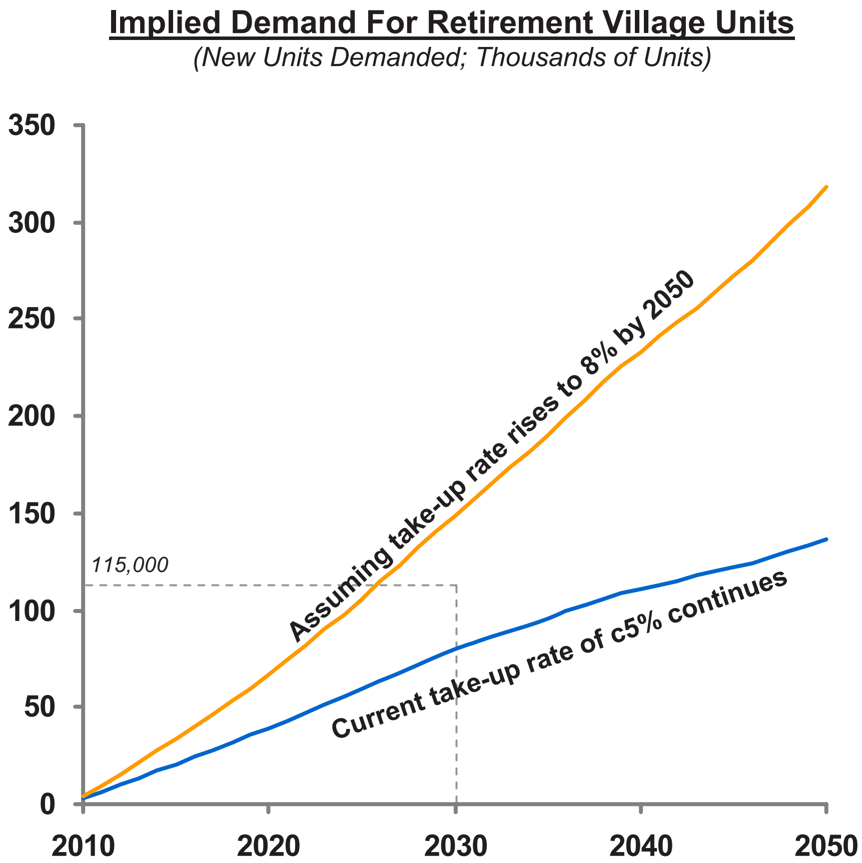
- Manage a portfolio of tenanted assets; keep residents satisfied
- Replace outgoing residents efficiently
- Refurbish periodically to maintain economic value
- Deferred Management Fees (DMFs)
  - A fee on exit linked to the duration of stay
  - Effectively pays for the upfront community facilities
- KPIs: tenure on exit, turnover rate, price growth, time-to-replace

Retirement Living is a good investment for Stockland

1. **Retirement is a genuine megatrend**
   - Demand will be strong and growing for many years
   - Rate of growth will accelerate from 2011 as Baby Boomers start to reach 65 years of age
   - Potential for greater take-up rate as product evolves to better meet customer needs

The demographic megatrend underpins strong industry growth





An estimated 115,000 new units required by 2030 based on expected take up rates

This equates to around $30bn of new dwellings at current average industry pricing

Source: ABS, Stockland analysis

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2. **Residents value the product and experience**
   - It's a lifestyle choice, not a property investment
   - 89% of Stockland's residents are highly satisfied; "I wish I had made the move sooner" is a common remark
   - Strong word-of-mouth effect in the community
   - Sustainable business model: works well for residents and Stockland

Residents overwhelmingly like the experience

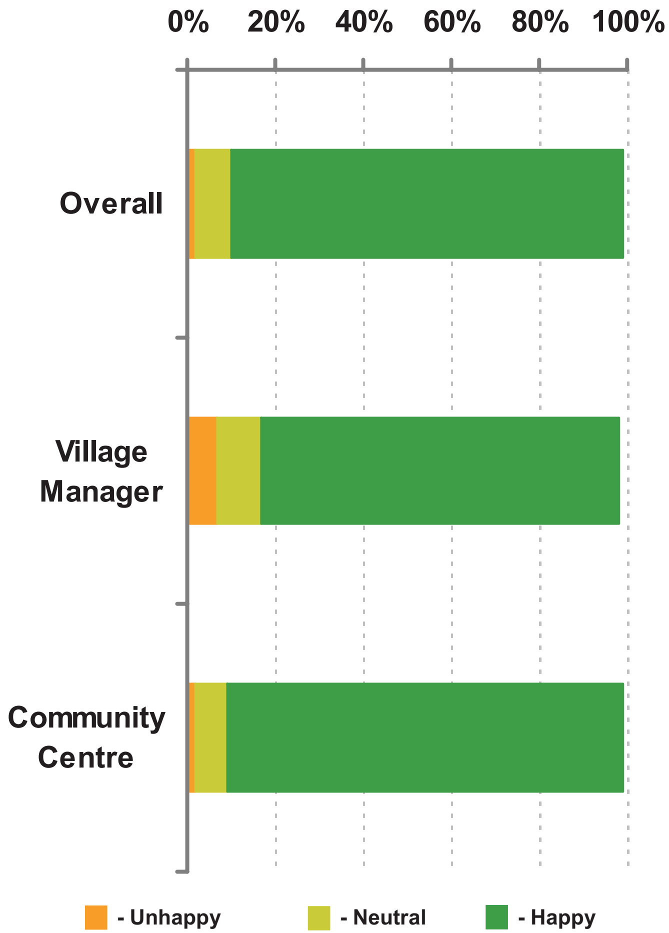
Resident Feedback

"My husband and I lived in our last house for 25 years and knew it was home the moment we walked in. We felt the same the first time we came to Fig Tree Village. It's home."

"The idea of moving into a brand new home that's so close to my family was really appealing to me. That, as well as a strong sense of security, was the main driver behind my decision to move to Gowanbrae Village."

"I found my new home very affordable, it actually provided me with a surplus of money I suppose after I sold the other place which meant I could use that for many things really – travel or I could just put it away for a rainy day..."

Retirement Living Residents' Voice Survey, July 2008



Conclusions and Actions

- Resident satisfaction drives asset performance
- Resident focus groups and our feedback process delivers continuous improvement

- Deliver specialised training and support for Village Managers
- Improve interface and coordination with Stockland
- Goal alignment is delivering results

- Stockland's product and level of amenity is meeting or exceeding expectations
- Continuous improvement of this important village element is key to maintaining vibrant communities

Source: Retirement Living Residents' Voice Survey, July 2008, resident interviews July 2009

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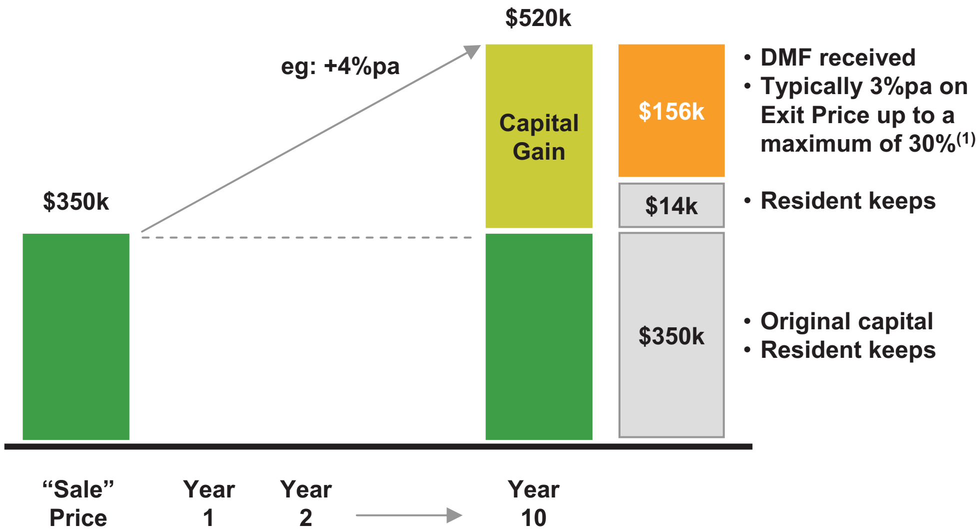
3. **The asset class offers high yields for mature villages**
   - Can achieve c9% gross cash yields from mature villages, before overheads
   - Longer term investment timeframe needed – villages approach maturity after 10 years

Established villages deliver an attractive yield at maturity

How The DMF Works:
Example of a Single Unit Over One Ownership Cycle(1)



- DMFs are the primary income source for established villages
- At critical mass, the stream of DMFs is analogous to rent
  - eg, on average, SGP earns a DMF every working day
- Can therefore express this income in terms of yield
- Low risk of no collection
  - Stockland is the re-sale agent and collects the cash
- Stockland is entitled to 2.5% of the exit price as a cost-recovery administration fee

Key Profit Metrics

Typical

Yield potential at maturity **~9%**
- *At full maturity; established only*
- *No development profit included*
- *Based on typical Exit Price contracts*
- *See Appendix for detail*

Typical time to maturity **~10yrs**
- *Based on historical experience*

Stockland in FY09

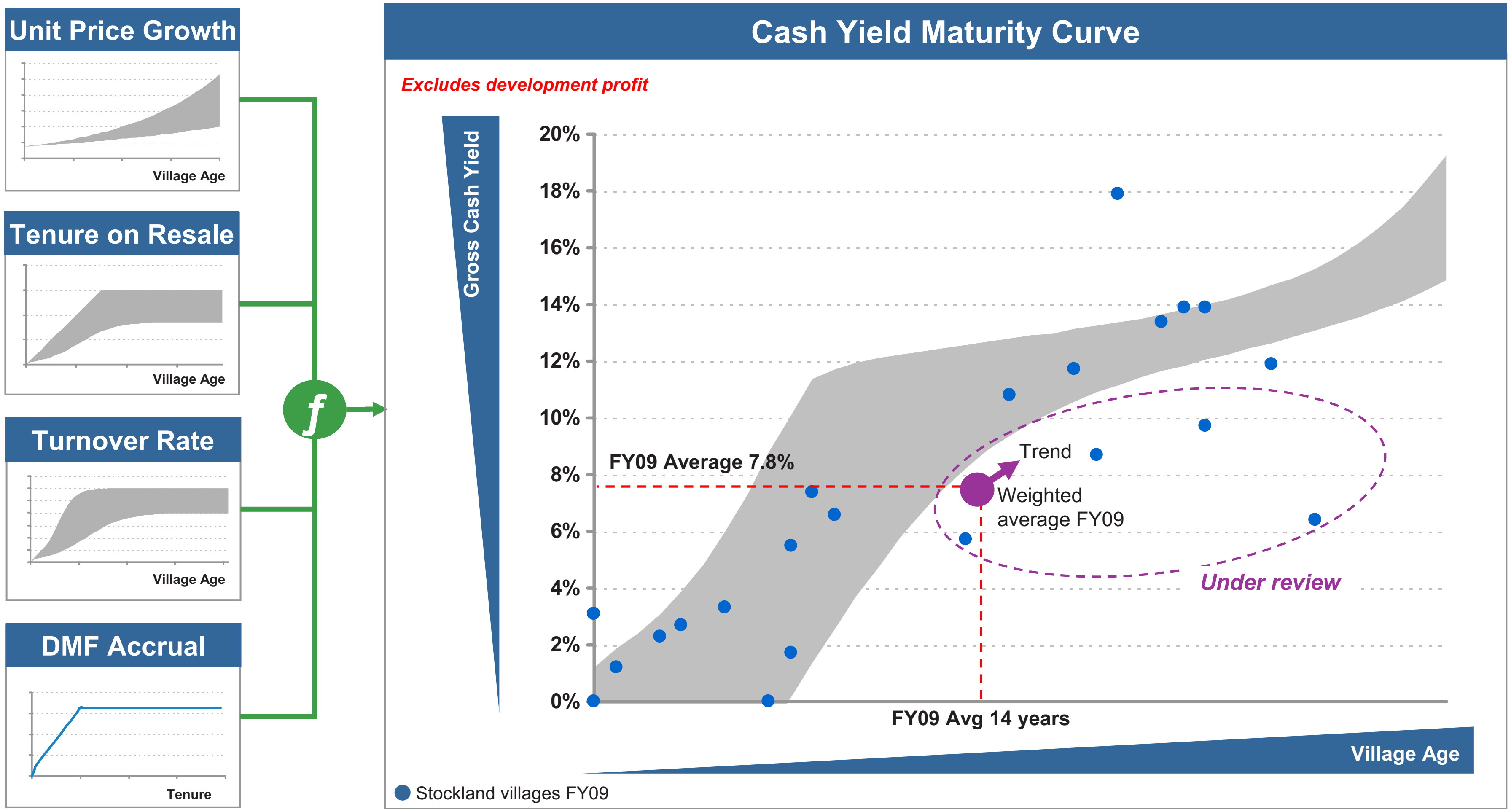
Yield on established villages **7.8%**
- *$22m DMF receipts*
- *$283m DMF value*

Average tenure-on-exit **7.9yrs**
- *Trends to 12 years over time*

Average DMF **44%**
- *Weighted average across contract types*
- *Includes terminal run-off benefits from legacy deferred repayment contracts which will dissipate as these contracts roll off*

(1) Illustrative example; capital appreciation and contract terms shown are for illustrative purposes

How cash yield gets to its mature level depends on four variables



Cash yield on established villages will improve as they get older and follow the maturity curve

* Excludes development profit, established villages only

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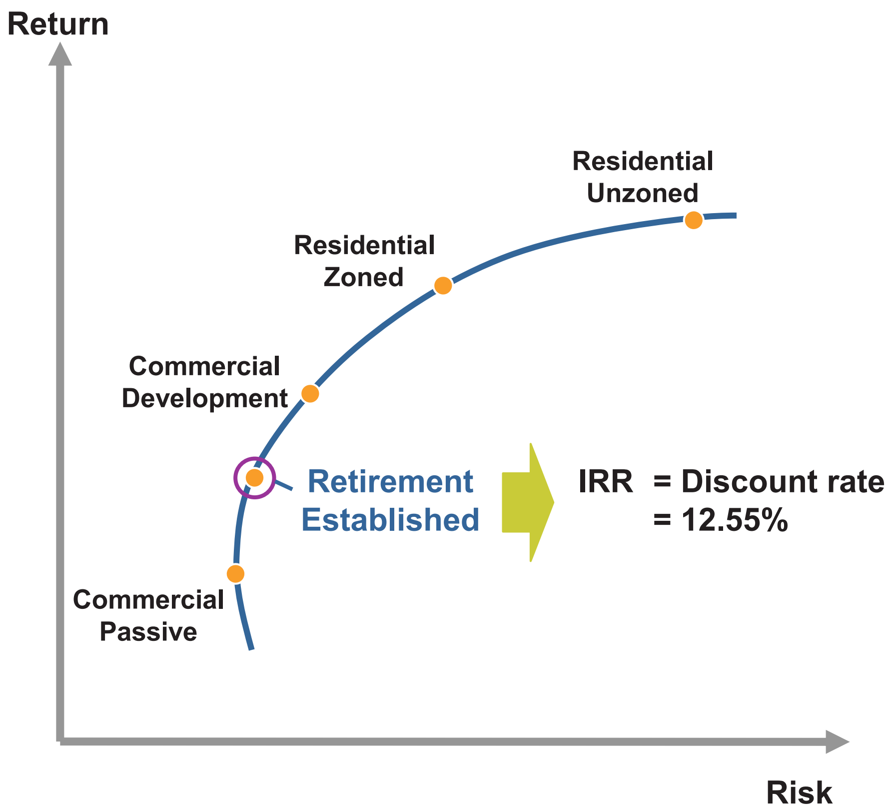
4. **Overall IRR on established villages is c12-13% pa**
   - If modelled growth rate (3.7% pa), turnover (12 yrs) and other assumptions hold true, IRR equals discount rate (12.55%)
   - If actual growth rate and other assumptions are higher than modelled, IRR is higher

Overall return depends on the mix of established and development

Indicative Risk-Return By Asset Class



Stockland 30 June 2009
Key Valuation Metrics

Discount rate **12.55%**
- *Independently assessed*

Growth rate **3.7% pa***
- *Growth in capital value of ILUs*
- *Independently assessed*

Turnover rate **12 years**
- *Equivalent to 8.3% pa*

DMF valuation **$283m**
- *See next page for sensitivity to capital growth rate and discount rate*

* Graduated growth rate adopted to reflect short term market conditions: 0% in year 1, 2% in year 2, 3% in year 3, then 4.2% thereafter

Discount and growth rate changes drive changes in DMF valuation

Sensitivity of DMF Value for Stockland Established Villages

(30 June 2009)

		ILU "Re-Sale" Value Growth Rate*			
	NPV of DMF Stream ($m)	**3.0%**	**3.7%**	**4.0%**	**5.0%**
Discount Rate	**12.00%**	277	303	316	366
	12.55%	260	**283**	294	337
	13.00%	247	268	278	317

Changing discount or growth rates will result in an Income Statement revaluation (above the line)

We hold these constant unless there is a material change

- **We conduct independent external valuation reviews a minimum of every 3 years**
- **The latest independent valuation was conducted for 30 June 2009**

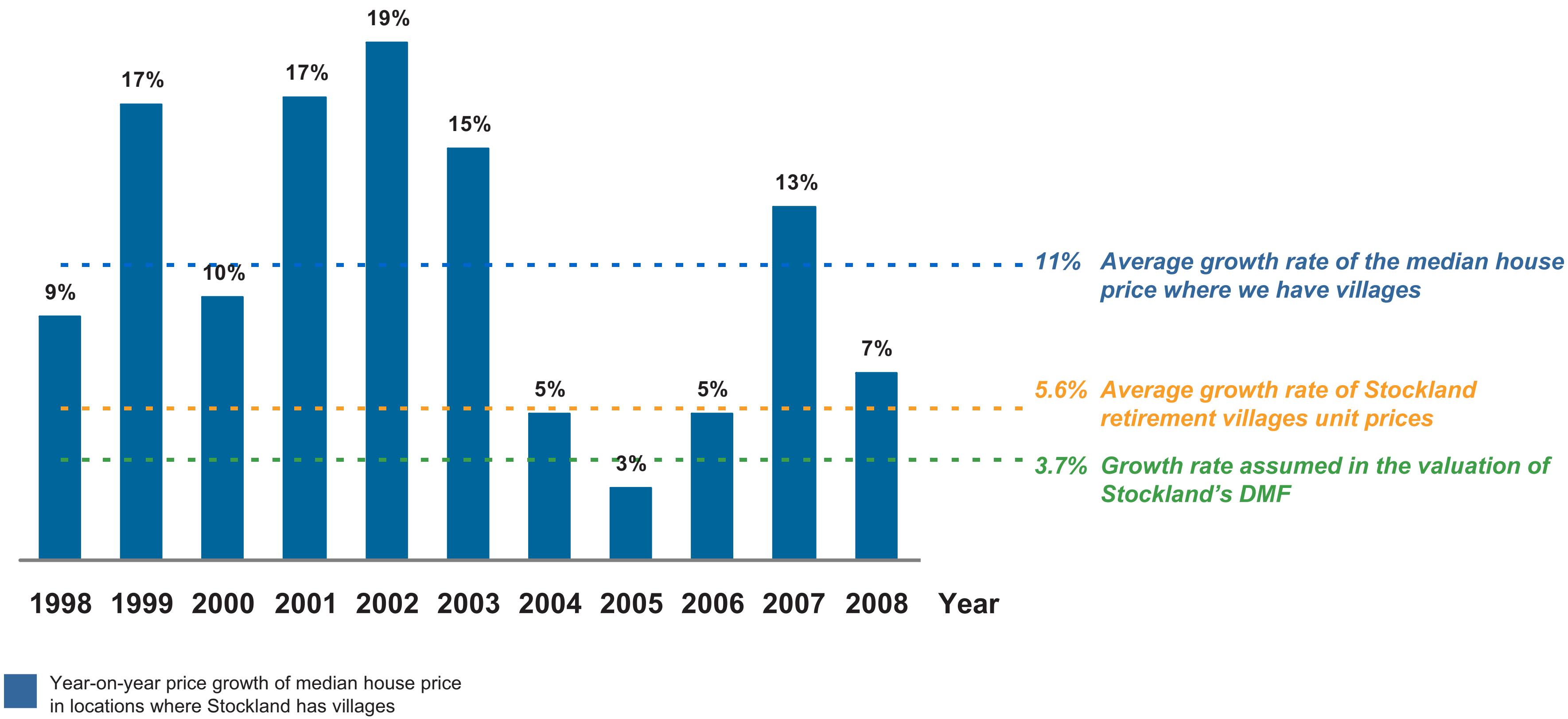
DMF value would also change should there be a change in the long-term turnover assumption of 8.3% or 12 years

- **A change from 12 to 10 years is worth approximately $45m in incremental DMF value**

*Weighted average across SGP portfolio. Turnover and capital expenditure assumptions are held constant

Historical growth in the median house price in our village locations suggests 3.7% pa is conservative

Historical Price Growth Comparison



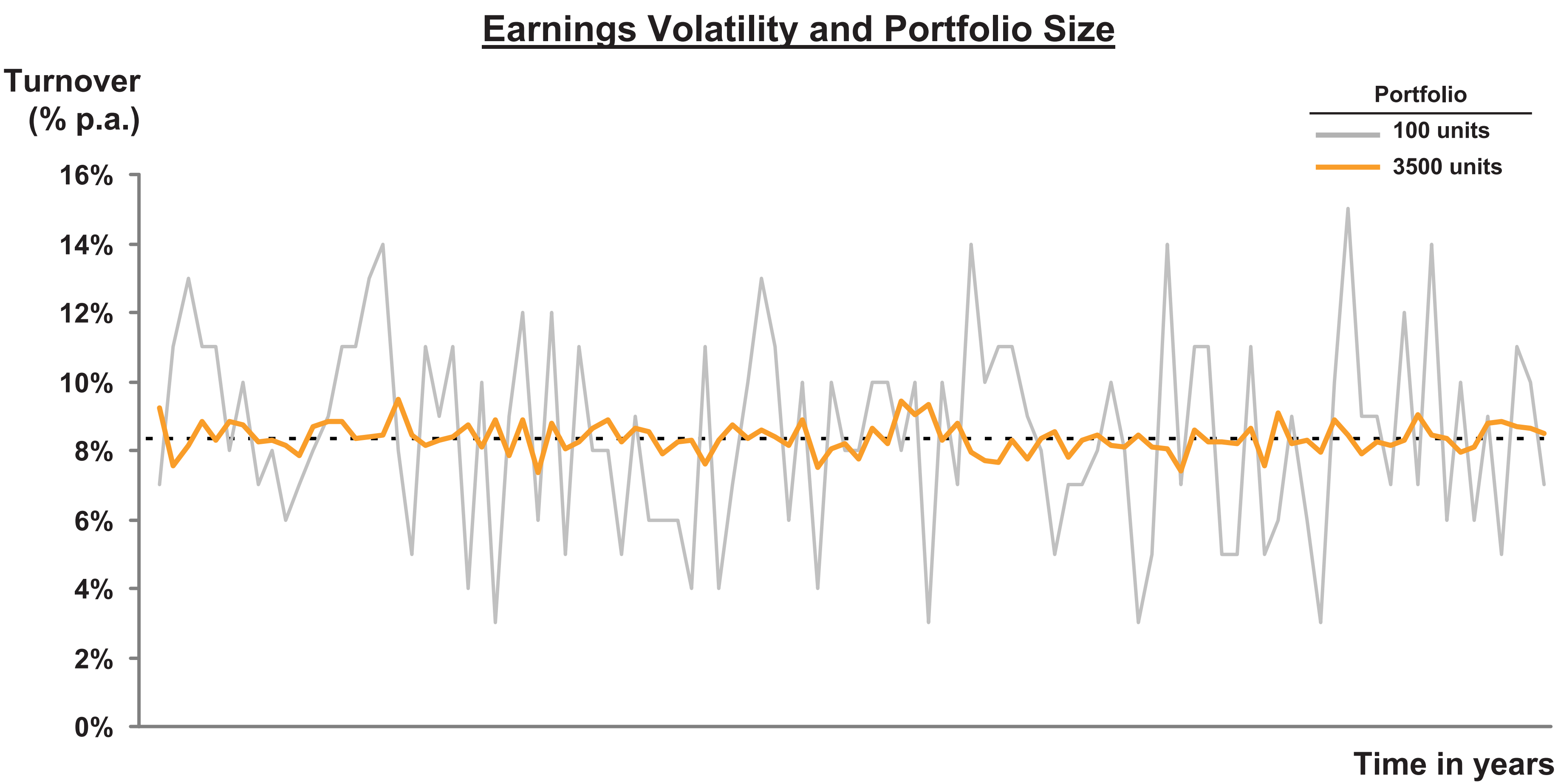
Stockland's price growth assumptions are very reasonable relative to historical growth

The DMF value in the balance sheet is therefore conservative

Notes:
1) Established villages with price history only
2) Some villages share the same LGA
3) Growth percentage weighted by units in each LGA

Source: "A Guide to Property Values 2008," Victorian Department of Sustainability and Environment; Stockland analysis

A larger portfolio reduces earnings volatility and risk



A small portfolio is vulnerable to statistical variations – in some years, the rate of turnover can be very low and in others very high, having a material impact on turnover earnings in those periods. Stability is a key benefit of a larger portfolio

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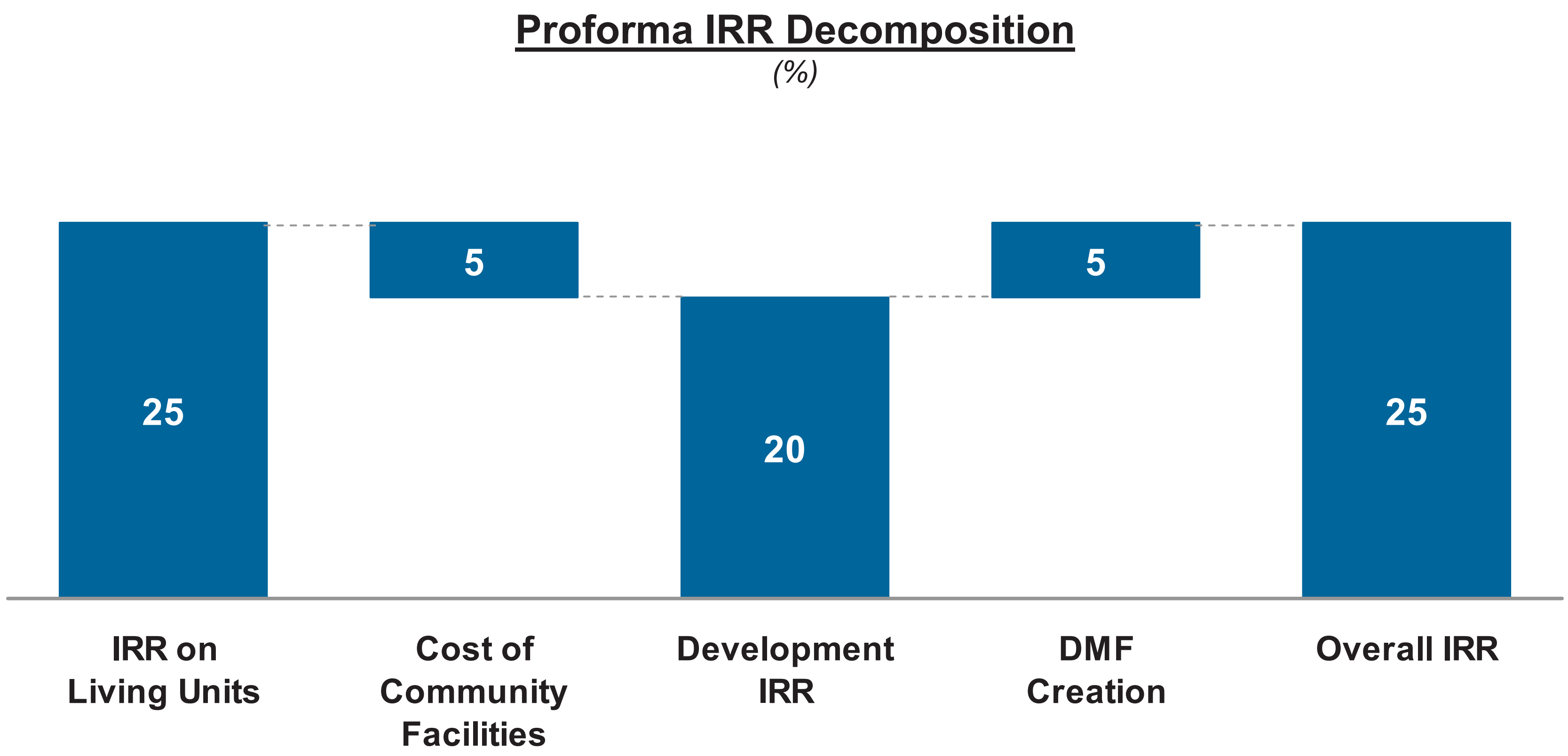
5. **IRR on developments is c15-20%**

The role of the DMF is to pay for the community facilities



- Selling prices
- # Units
- Cost to build
- Land cost
- Time

The DMF makes it possible to invest economically in Community Facilities without upfront cost to residents

Latest Community Centre floor plan and elevation

Gowanbrae Village “Clubhouse”

- Lead element in building vibrant resident communities
- Incorporates design elements from resident feedback
    - Solicited in focus groups and surveys
    - Observations of how residents use the facility
- Less open space designs; more smaller purpose-built spaces
    - Better functionality, user-friendly
    - Preferable intimate settings for activities

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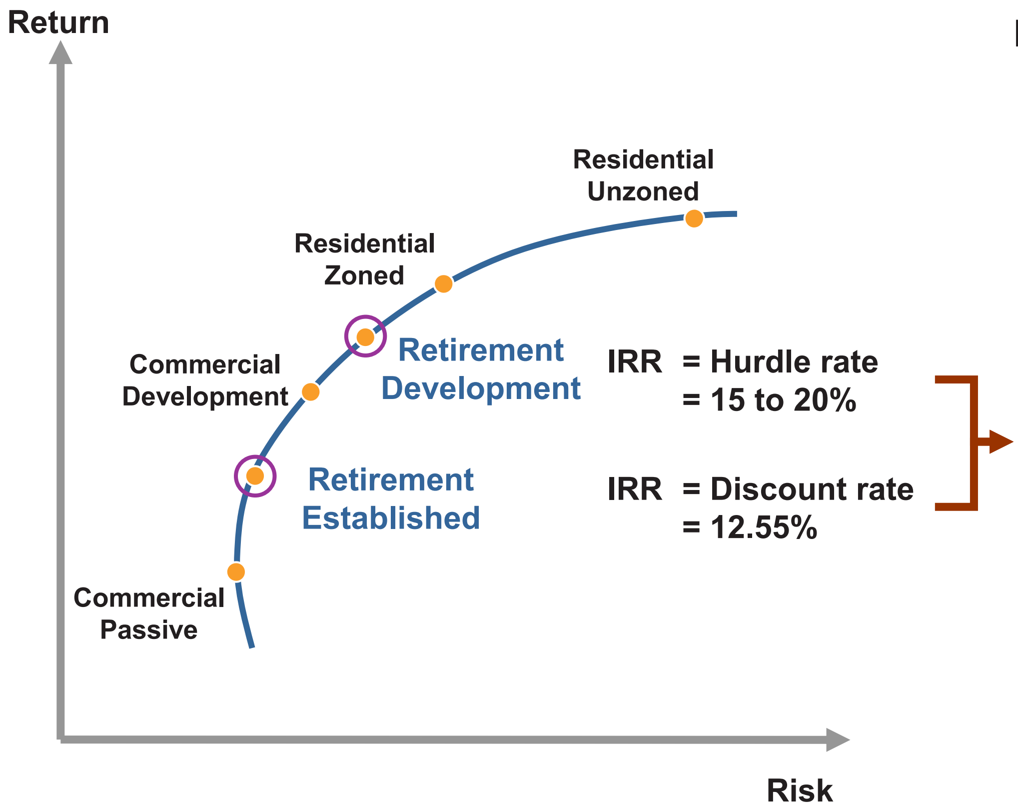
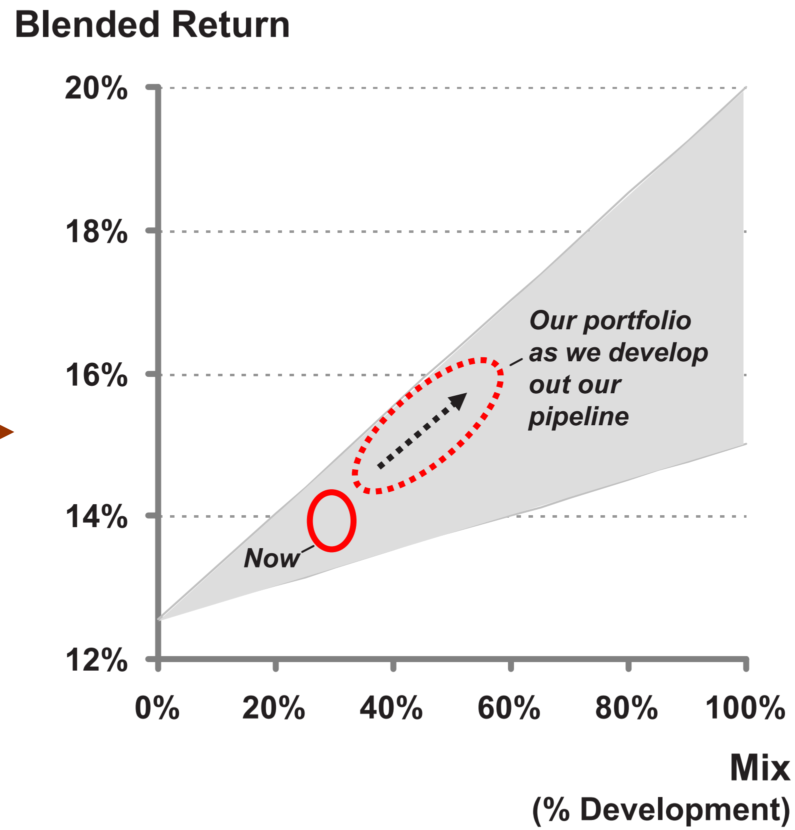
6. **Blended IRR therefore depends on mix of established and development**
   - Trade-off: developments give long term earnings growth, but dilute maturity
   - Stockland aims for a balanced mix of short-term yield and earnings growth, and long-term IRR
   - Blended IRR target in mid-teens (15-17% pa)

Total target returns 15-17% before unrecovered overheads

Overall return depends on the mix of established and development





By balancing the rate of development,
Stockland delivers an optimal mix of yield and growth in the mid-teens

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7. **Retirement helps maintain Stockland's strategic income weightings**
   - Combines stable recurring income with exposure to development profits

Retirement fits well into Stockland's portfolio due to its unique and balanced characteristics

	Residential Communities	Commercial
Retirement Is Similar	▪ Development profit ▪ Locations driven by local demand ▪ Development process	▪ Lease-like income stream ▪ 'Tenant' management ▪ On-going asset management
Retirement Is Different	▪ On-going income stream ▪ Built form – However, lower risk than Apartments: typically build in stages; early build of Community facilities generate demand and sales pull through ▪ Infrastructure-intensive – Community facilities reduce the development margin and IRR	▪ Yield potential is higher than average but it takes longer to reach full potential – Can achieve ~9% yields at maturity ▪ Lower risk – Occupancy, and hence turnover, is underwritten by demographic megatrend ▪ Revaluations above the line – Cash benefits from revaluation are realised during ownership (vs need to sell Commercial to get the benefit)

Retirement helps maintain Stockland's strategic income weightings[(1)]
- Combines stable recurring income with exposure to development profits -

(1) 20-40% of EBIT from trading, 60-80% of EBIT from recurring

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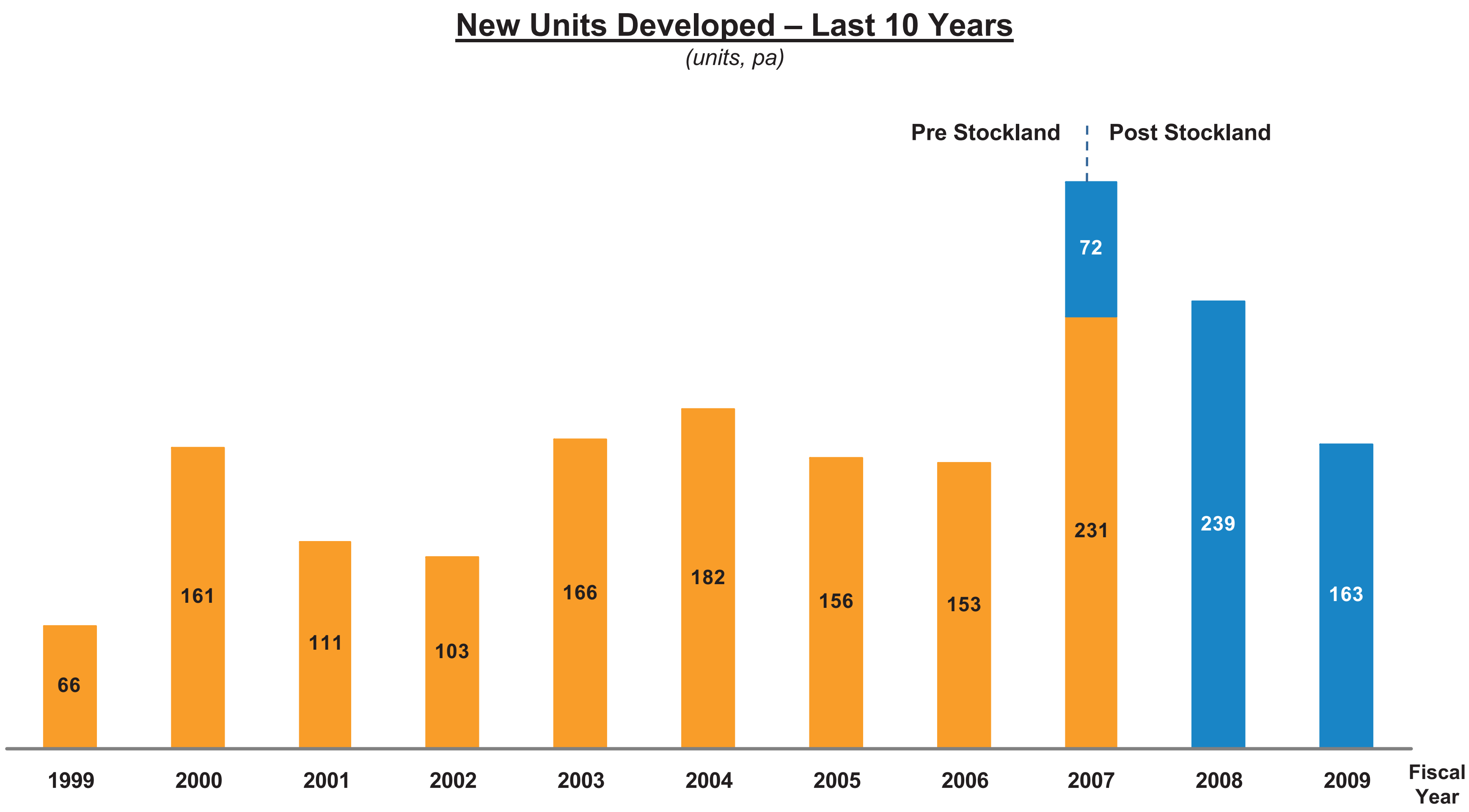
Stockland Retirement Living's strategy

1. **Develop new villages to capture a growing share of the bulging 65+ demographic**
   - Continuously improve design through close interaction with our residents
   - Middle and upper-middle Australians in metro and outer-metro areas
   - Build a strong brand that stands for value-for-money and community-building

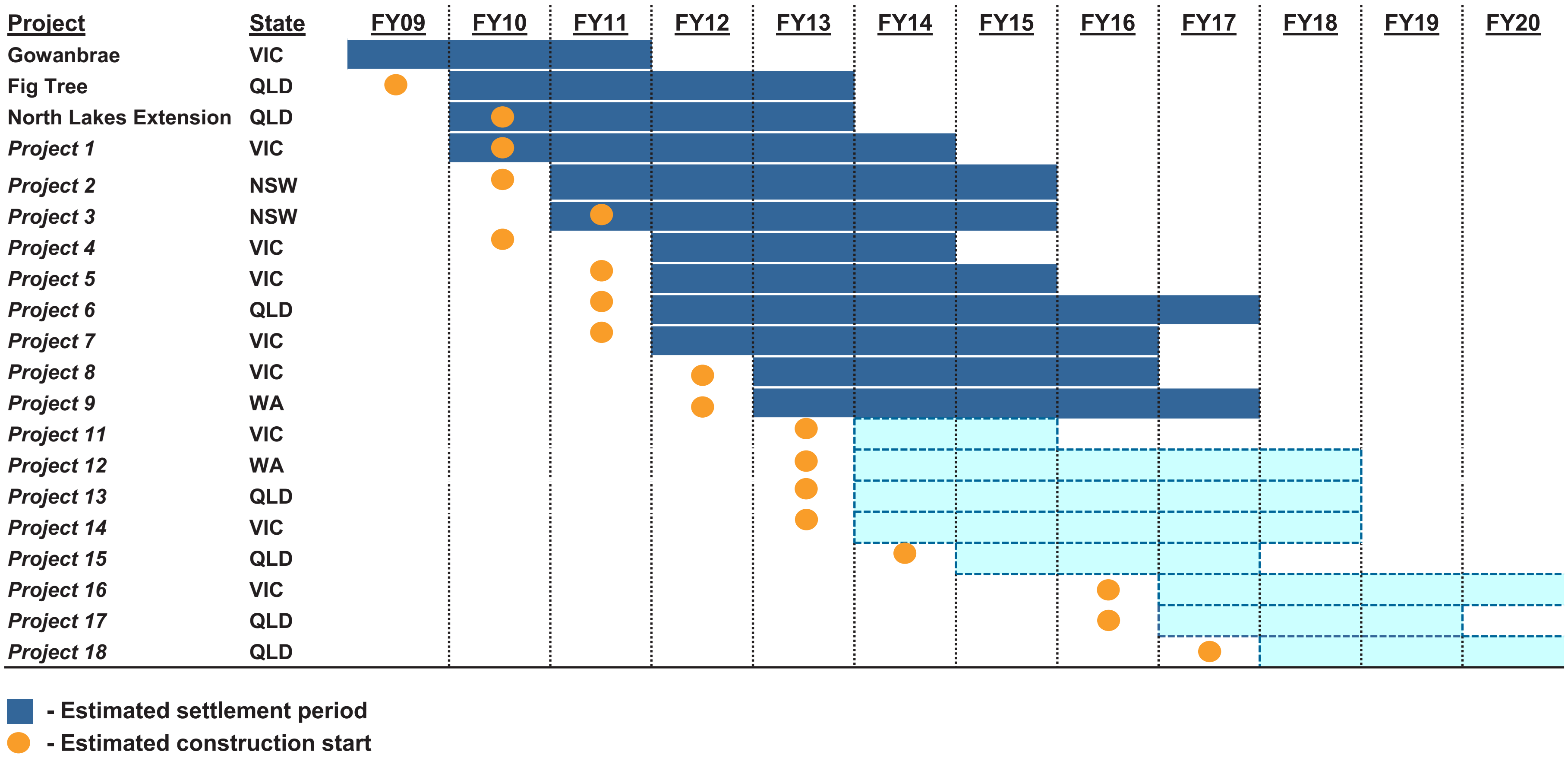
Stockland/ARC has a long tradition of growth through development



Stockland's acquisition of ARC brought capital and an extensive nation-wide land bank to a strong development culture

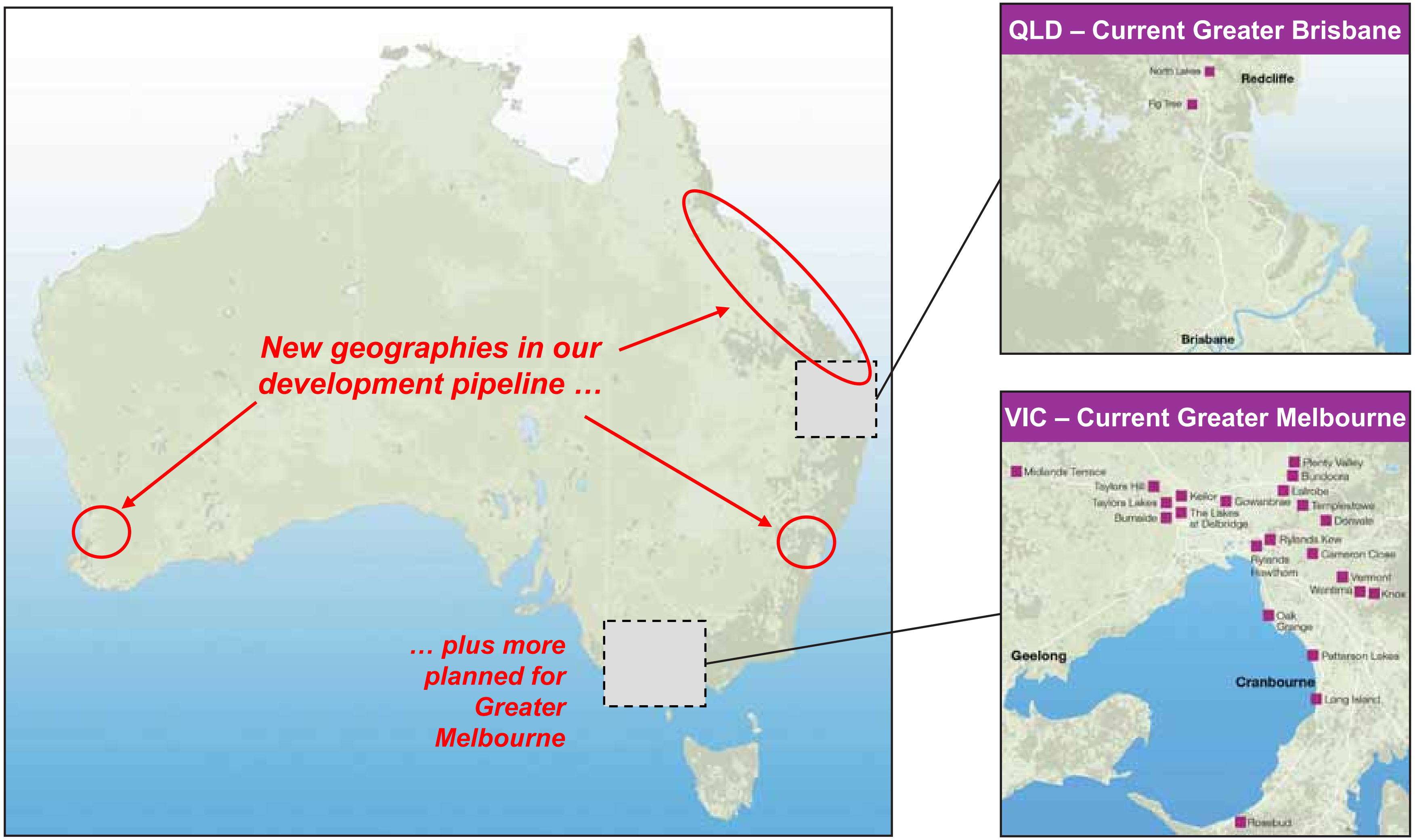
* Excludes completed and acquired units not developed by ARC or Stockland

This tradition will continue, but now with the added advantage of direct and open access to Stockland's large land bank



The pipeline is continuously reviewed to align with the evolving demographic and economic factors which drive development profitability

Our development pipeline will provide geographic diversification

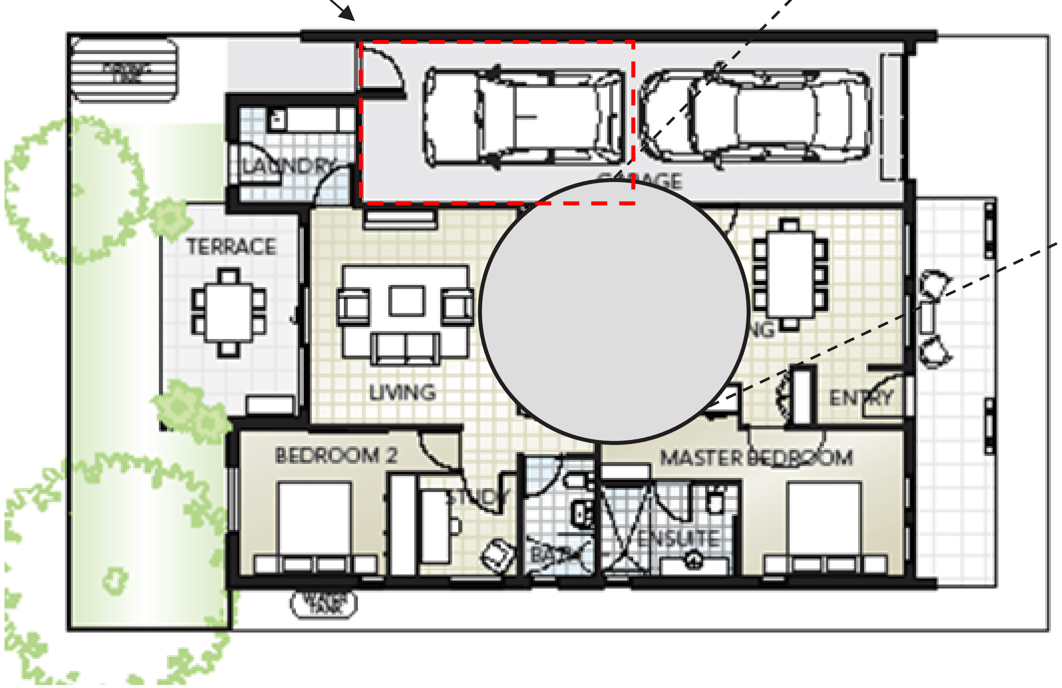


Case Study: North Lakes Extension resident-inspired design elements

Unit Design Elements

- Lots of natural light and cross ventilation
- Indoor and outdoor entertaining areas
- Functional space that evolves with residents as they slow down

Example: The Tandem Garage
Observations of new residents indicates they typically enter the village with two cars and downsize to one with time. The extra space is designed to be used for storage, workshop or other activity area



Kitchen Design Elements

- Galley-style kitchens without inaccessible corner cabinets
- Removable kitchen islands to improve wheelchair access
- More drawers under the bench top

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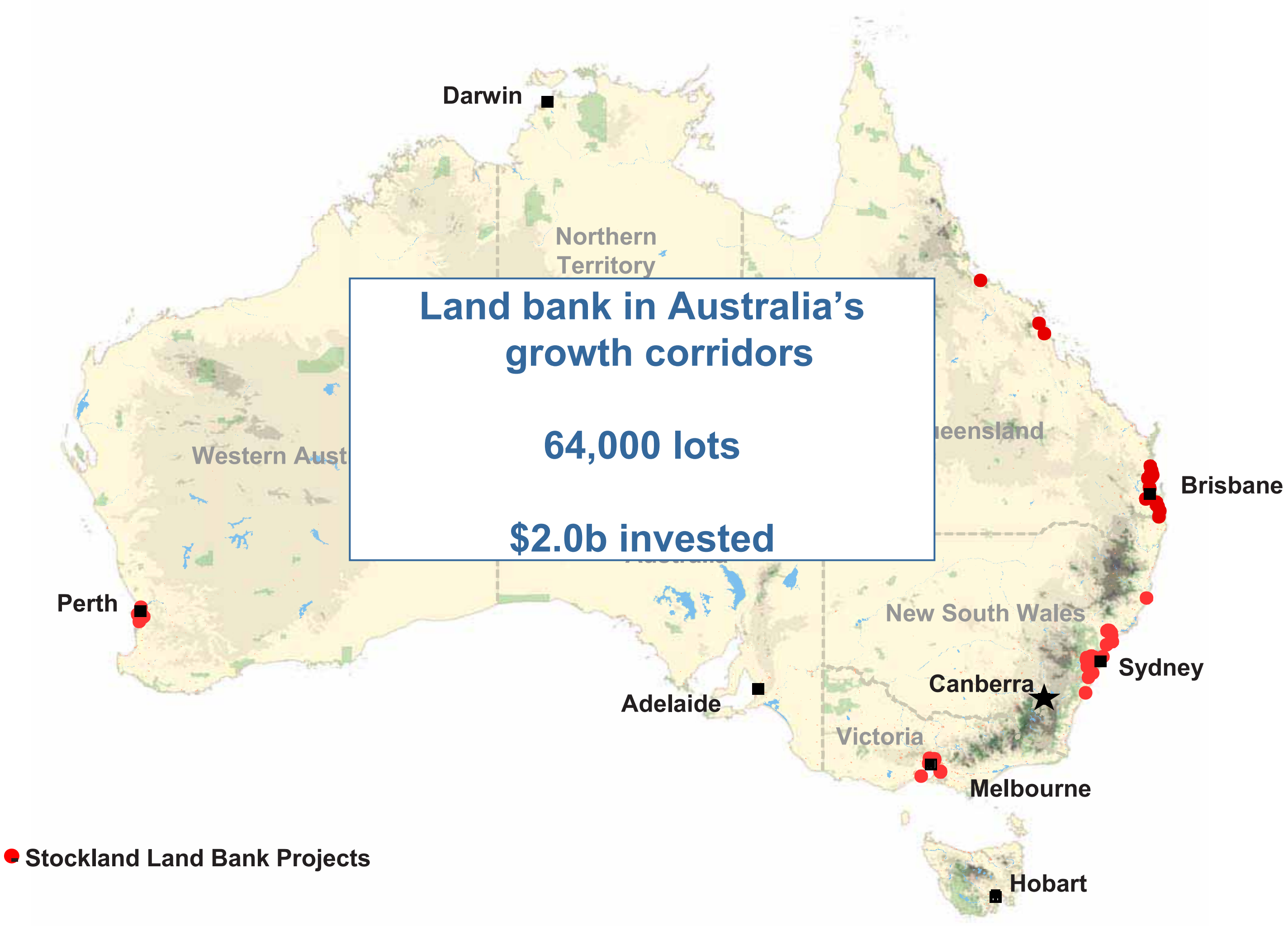
2. **Make extensive use of Stockland's rich land bank**
   - In locations offering the right amenity along the Eastern seaboard and in WA – diversifying the portfolio by geography

Stockland's total Residential Communities land bank is rich and diverse

Retirement Living Development Strategy

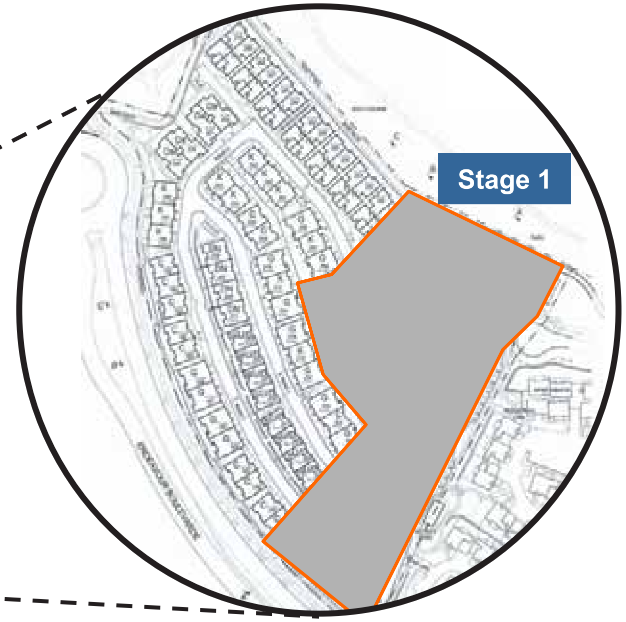
- Tap this land bank as a source of project land
- Integrate retirement living as a key part of building masterplanned community developments



North Lakes Extension construction commenced in July 2009

North Lakes Masterplan

North Lakes Extension Retirement Village
(Development)



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3. **Draw on market-leading capabilities in other parts of Stockland**
   - Residential Communities: land acquisition, masterplanning and execution
   - Commercial Property: asset management expertise

Stockland's diversified model provides competitive advantages (I)

Synergies with Residential Communities

Rich land bank

- Advantaged locations in areas where the population is in the right age group now and in the near future

Proprietary research

- Price growth strategies in residential corridors
- Deep customer insight

Design and delivery expertise

- Design guidelines and cost data
- Development approval and documentation processes
- Project management
- Post Implementation Review process

External relationships

- Experienced with local approval processes

Community creation and integration

- Retirement villages fit well into the wider community
- Integrated masterplans enable the right mix of residential, retirement and retail precincts to optimise overall returns

Fig Tree Village, QLD

Gowanbrae ILU, VIC

Stockland's diversified model provides competitive advantages (II)

Gowanbrae Community Centre, VIC

Rylands Kew Village, VIC

Synergies with Commercial Property

Asset management

- Redevelopment and repositioning of assets to ensure they remain relevant to customers over the long term

Property management

- Staffing model for management, sales, maintenance and back-office support functions
- Tenant relationship management practices
- Efficient procurement of disposables and utilities

Retail integration

- Place villages near retail centres to provide amenity to residents
- Mixed use opportunities to include vertical retirement living apartments in metro locations

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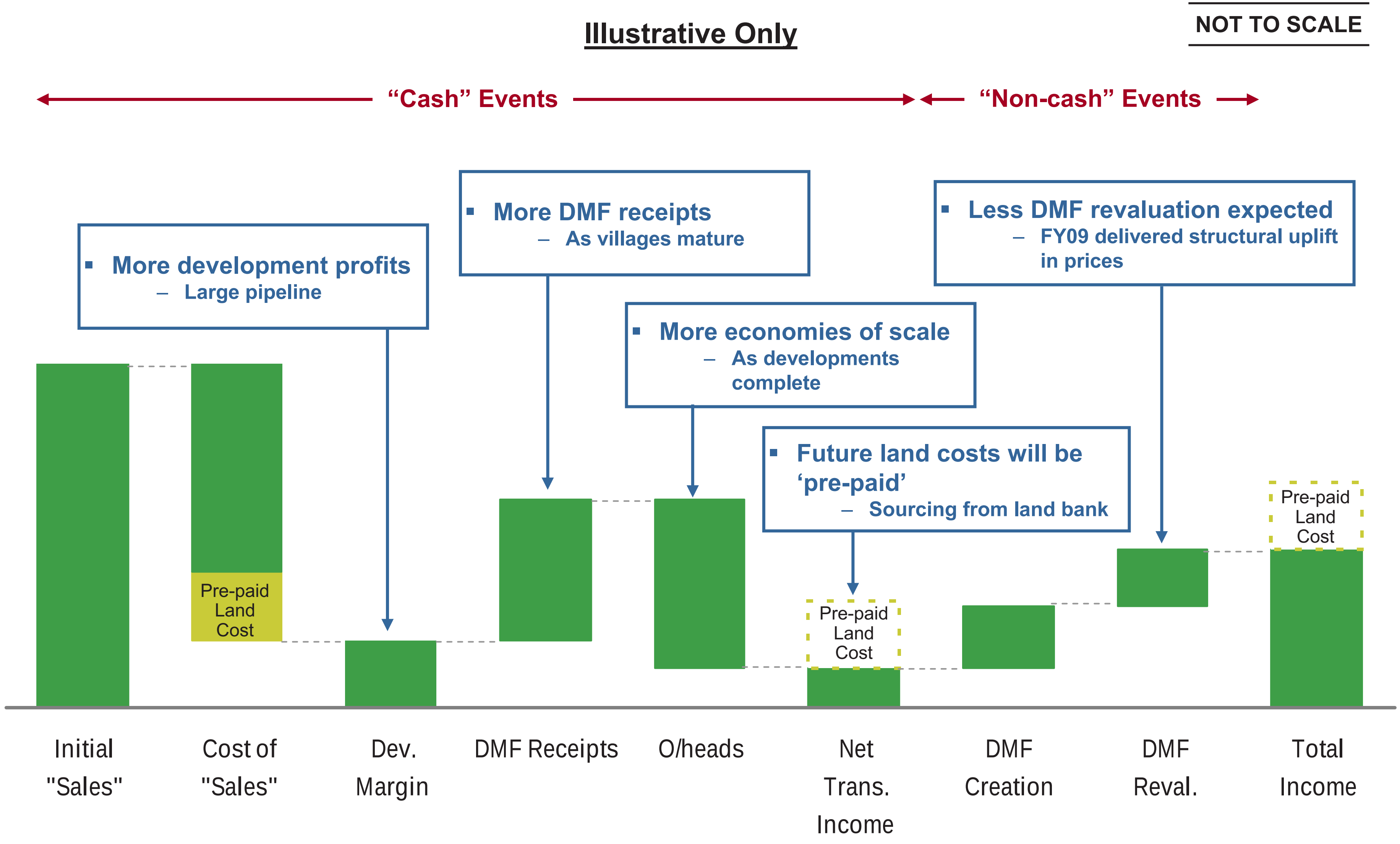
4. **Deliver reliable portfolio returns providing the right mix of yield and growth**
   - Increase the proportion of cash earnings as villages mature
   - Add more cash from completing and settling more developments
   - Improve economies of scale and lower earnings volatility through growth
   - Further streamline internal processes for efficiency

Going forward, a greater emphasis on 'cash' over 'non-cash'



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Recap of key points

- **Success in Retirement Living relies on Stockland's fundamental property skills and capabilities**
  – Combination of Residential development and Commercial asset management

- **The asset class is a very sound long term investment**
  – Strong underlying demand
  – Good yield for mature portfolios
  – 'Mid-teens' overall IRR with relatively low risk and upside
  – Helps maintain balanced earnings mix – recurring income with development exposure

- **Stockland is well-positioned for future value creation**
  – Synergy benefits with Residential Communities and Commercial Property
  – Competitive intellectual property (design)
  – Unique and rich land bank

- **Strategic focus is on growth through organic development**
  – Scale benefits: spread overheads, lower earnings volatility
  – Strong pipeline draws from land bank
  – Supplemented by selective acquisitions

Rylands Kew Village, VIC

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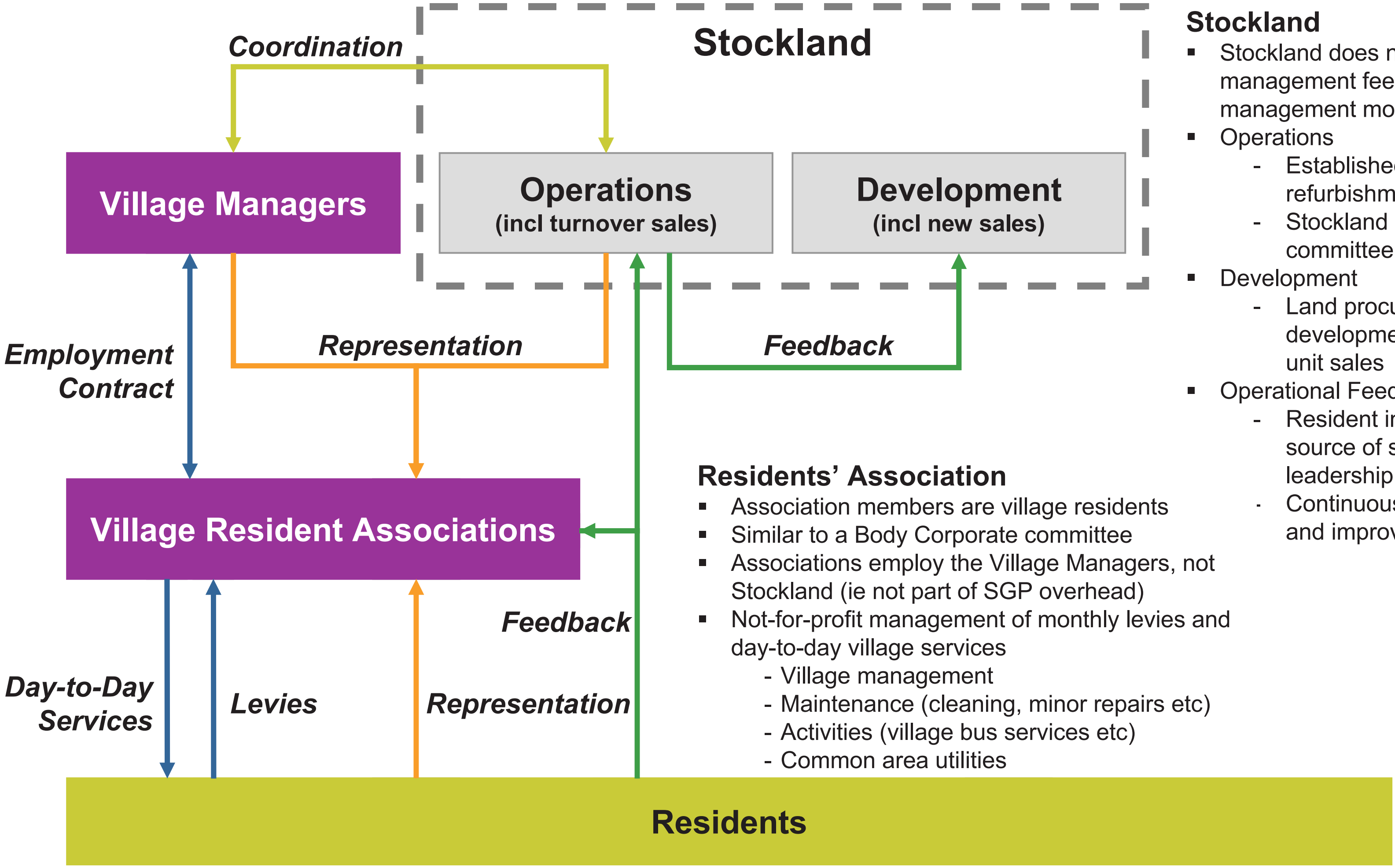

Stockland
- Stockland does not charge a portfolio management fee as do some external management models in the industry
- Operations
  - Established sales, legal, refurbishment & upgrades
  - Stockland sits on the Residents' committee
- Development
  - Land procurement, design, development and delivery, new unit sales
- Operational Feedback
  - Resident interaction is a key source of sustained product leadership
  - Continuous design innovation and improvement

Residents' Association
- Association members are village residents
- Similar to a Body Corporate committee
- Associations employ the Village Managers, not Stockland (ie not part of SGP overhead)
- Not-for-profit management of monthly levies and day-to-day village services
  - Village management
  - Maintenance (cleaning, minor repairs etc)
  - Activities (village bus services etc)
  - Common area utilities

Exceptions to this model:
1. **The Fig Tree Village Manager is employed by Stockland**
2. **At Rylands:**
   - **Village Managers are employed by Stockland**
   - **Strata ownership model; no loan**

The Loan-Lease model provides efficient funding

Retirement Living Value Chain

Loan-Lease

- Retirement units are not actually “sold”
- New residents provide a loan to the operator (Stockland)
  - The resident loan is effectively the “sale” price
  - The property plant and equipment work-in-progress is equivalent to the “cost of sales”
- In return, they are granted a lease for the unit
- This structure is stamp-duty efficient for retirees
- A majority of Stockland’s residents are on loan-lease contracts

Strata

- Same as general residential apartments (ie outside of retirement villages)
- Some research indicates strata is preferred by the customer segment at the high end of the price range
- These customers may value a sense of direct ownership over stamp duty obligations
- At Stockland, only Rylands residents are on Strata arrangements (2 villages, 153 units)

Rental

- Rent is charged in an apartment-style arrangement
- May be deferred to end of tenure or pay-as-you-go
- Tends to be more prevalent in the not-for-profit and lower income sectors
- Stockland provides no rental accommodation

Property Development is almost identical to our Residential business

Retirement Living Value Chain

Land Acquisition

- Identify future growth corridors in which to bank attractive development opportunities
- Buy "well" using a rigorous approach to valuation
- Land bank projects have multiple highest and best use options under Stockland's diversified model

Design

- Catchment research to optimise value for money proposition
- Deep database of construction costs used to drive estimating accuracy
- Refined end to end design process delivers cycle-time efficiency
- Diverse business model facilitates masterplanning capability

Approvals

- Include knowledge of local government approvals processes in design work
- Deliver a "retirement solution" as part of larger projects

Build

- Project and contract management
- Construction management and defects minimisation

Sales

- Marketing programme covering customer interest generation through final settlements
- Professional selling expertise including customer management

Established Operations are akin to Commercial leasing and operations

Retirement Living Value Chain

Move In / Out

- Coordination of logistics to assist residents on arrival and departure
- Legal / conveyancing team acts as key liaison with residents and their families

Day-2-Day Village Operations

- Residents have access to village facilities effectively for no upfront cost
  - The cost is deferred to the end of their stay in the village, the deferred management fee (“DMF”)
  - DMF accrues for each year of residency to an agreed maximum (typically 3% pa)
  - This accrual is less than the historical rate of nominal price growth (average of 5.6% pa)
  - Effectively, residents use the capital appreciation in their unit to fund their use of the village facilities

Refurb & Upgrade

- Refurbishments: minor/cosmetic make-good works such as paint and carpet. Funded by outgoing resident
- Upgrades: mainly kitchen and bathroom renovations; does not happen at every turnover. Capital reinvestment by Stockland; results in a significant price uplift

Re-Sales

- At turnover, the DMF contract between Stockland and the resident is settled
  - The accrued fee is deducted from the sum of the original loan provided by the resident plus any capital movement
  - The balance is returned less a 2.5% (of exit price) cost-recovery administration fee
  - 99% of residents exiting on these contracts in FY09 received a net payout higher than their original purchase price

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2. Our strategy

3. Wrap up

4. Appendix
   - Our model in detail
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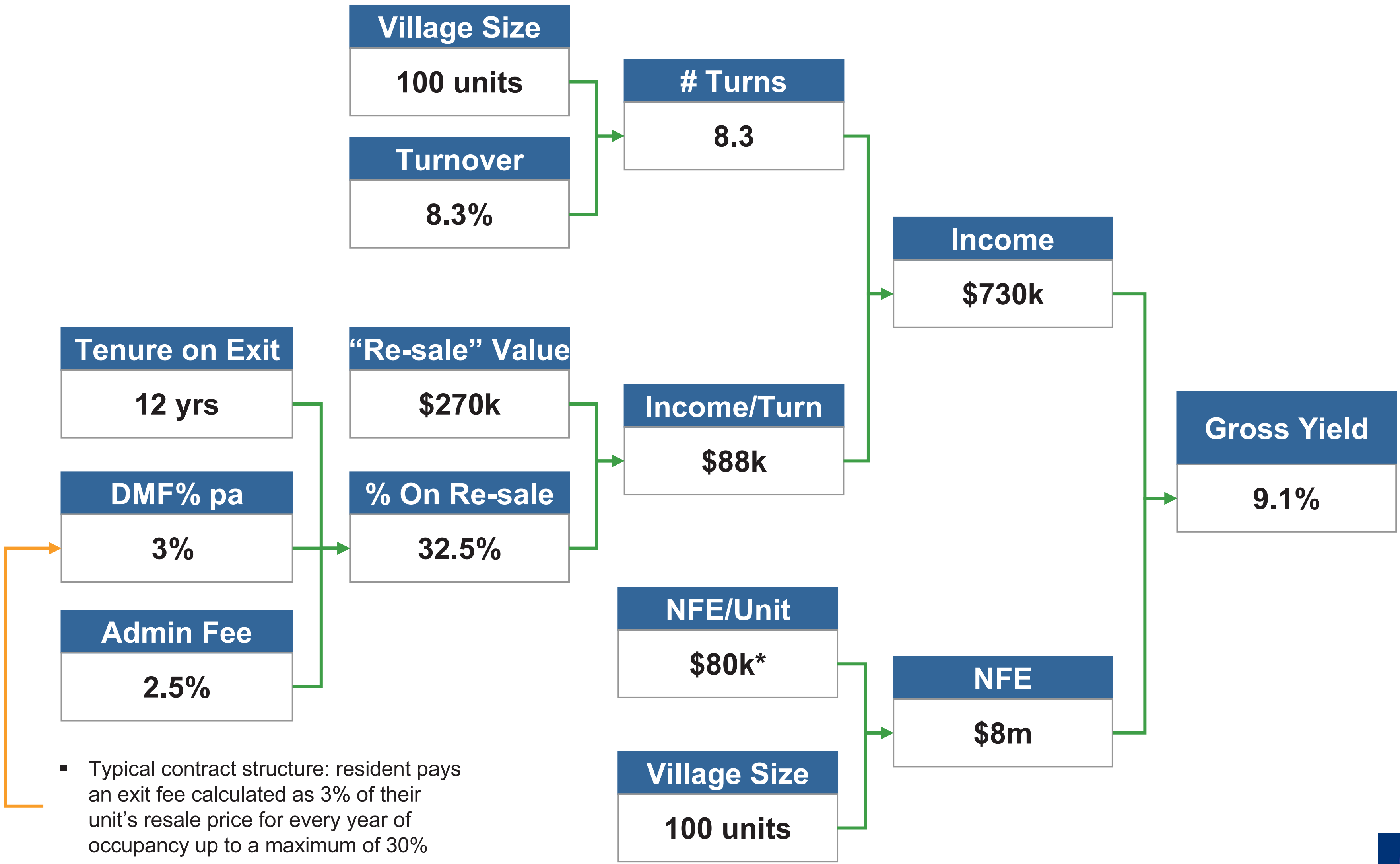
Some useful "rules of thumb"

1. A mature village delivers a cash yield of up to 9%
   - Much less in its early years
2. A typical village approaches maturity after 10 years
3. The present value of the DMF for a new unit is 20-30% of the sale price
4. Only at maturity will turnover and average tenure on exit be correlated
   - At maturity, a 12 year tenure-on-exit is equivalent to a 8.3% turnover rate
5. Residents are living longer and entering later
   - Average resident entry age is 75 years
   - Average age of current residents is 80 years
6. New residents favour villages that match their demographics (age and socioeconomic background)
   - Older mature villages attract an older entry population
7. Different mixes of turnover and tenure on exit produce the same cash yield

Once villages mature, expect a gross cash yield of ~9%

INDICATIVE



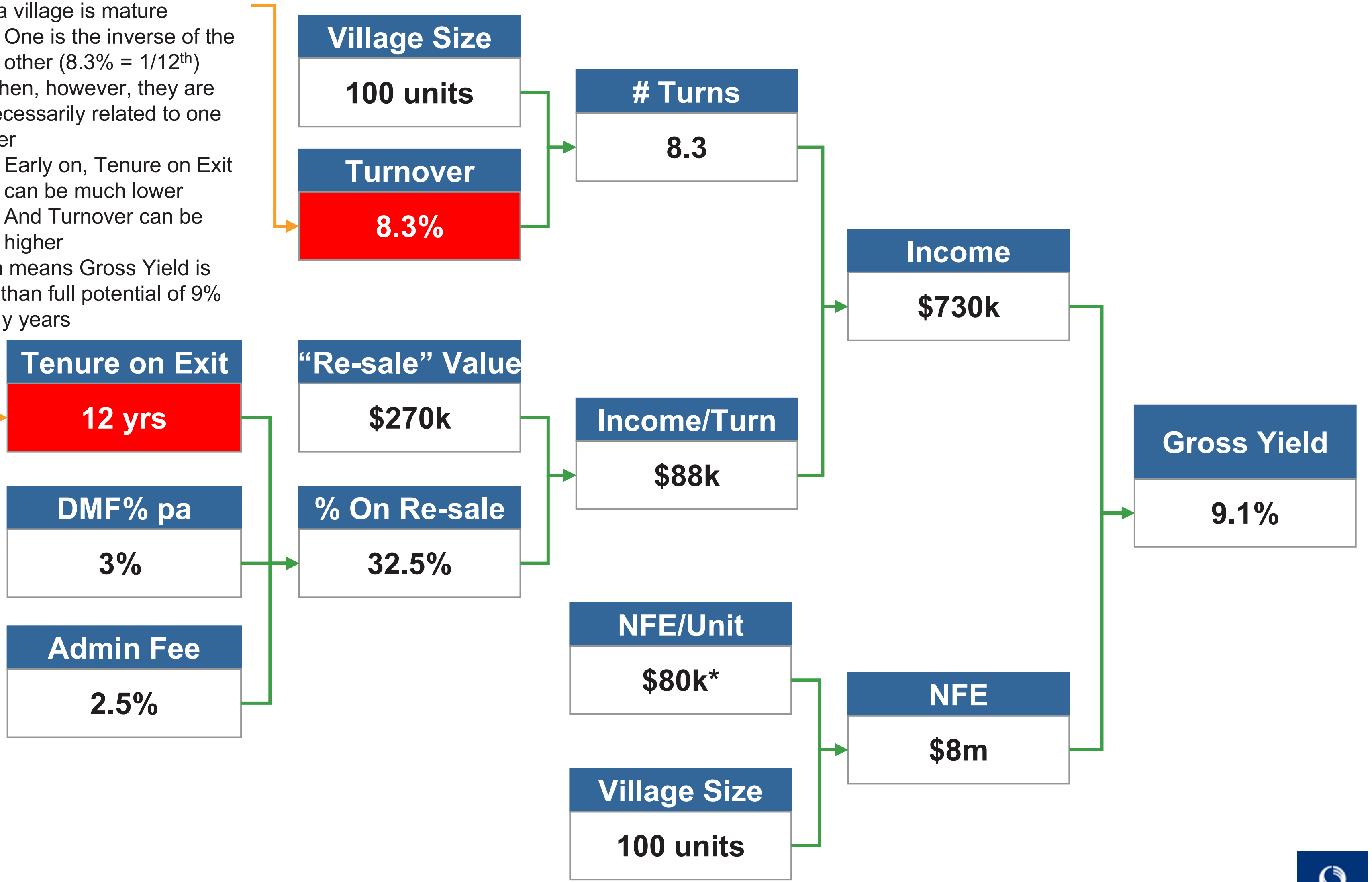
- Typical contract structure: resident pays an exit fee calculated as 3% of their unit's resale price for every year of occupancy up to a maximum of 30%

* Assume present value of the future DMF stream is roughly 30% of the re-sale value in this example

But until a village reaches maturity, Tenure-on-Exit and Turnover will almost certainly be below their long-run equilibrium levels

INDICATIVE

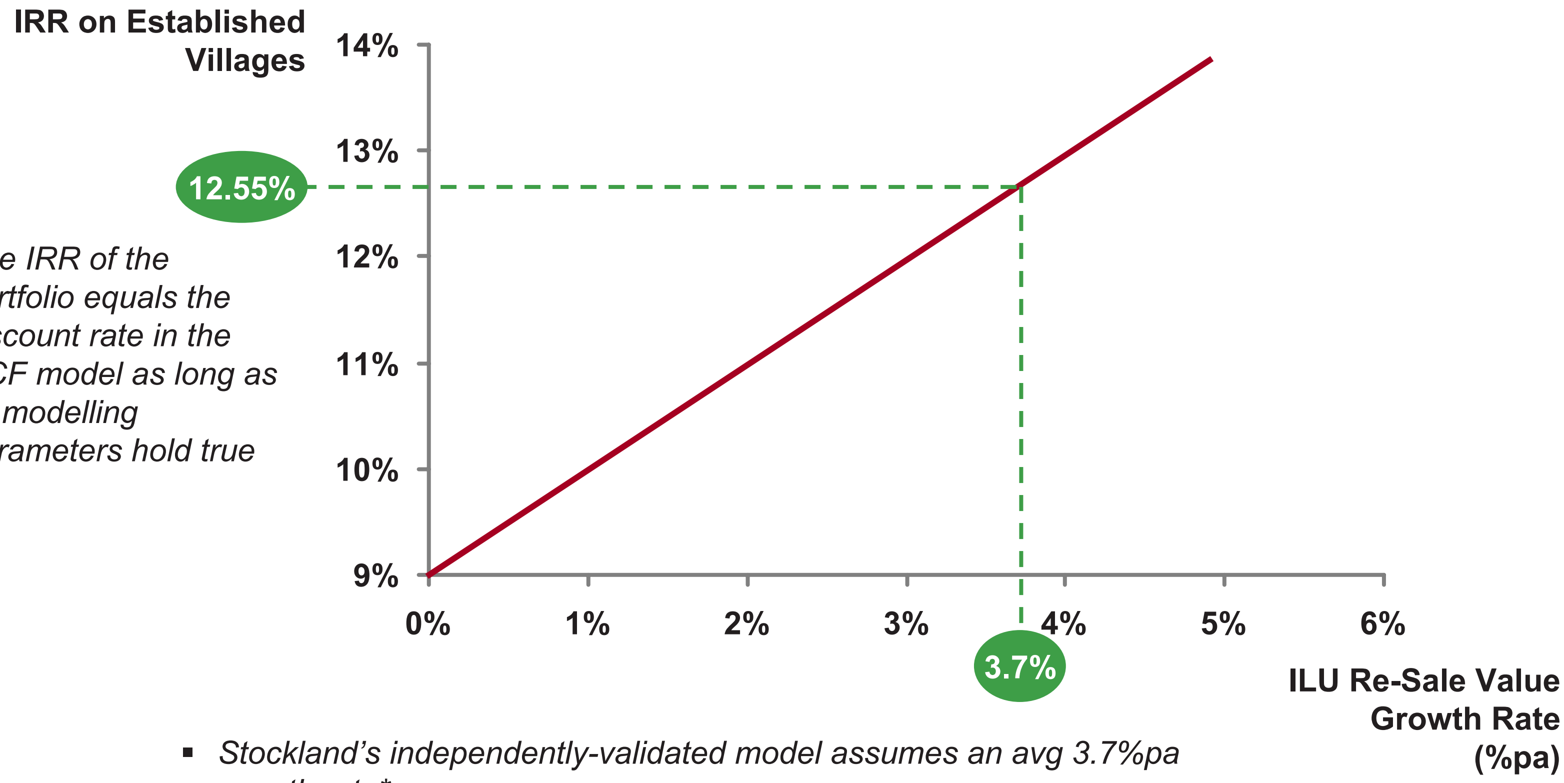
- These two drivers are coupled once a village is mature
  - One is the inverse of the other (8.3% = 1/12th)
- Until then, however, they are not necessarily related to one another
  - Early on, Tenure on Exit can be much lower
  - And Turnover can be higher
- Which means Gross Yield is lower than full potential of 9% in early years



* Assume present value of the future DMF stream is roughly 30% of the re-sale value in this example

Achieving a higher growth rate than expected drives a higher IRR on the established portfolio

IRR Sensitivity to Growth Rates: Established Portfolio



- *The IRR of the portfolio equals the discount rate in the DCF model as long as all modelling parameters hold true*

- *Stockland's independently-validated model assumes an avg 3.7%pa growth rate**
- *If future growth is like historical growth, this will be conservatively low*
- *If this is the outcome, IRR on the portfolio would exceed 12.55%*

* Graduated growth rate adopted to reflect short term market conditions: 0% in year 1, 2% in year 2, 3% in year 3, then 4.2% thereafter

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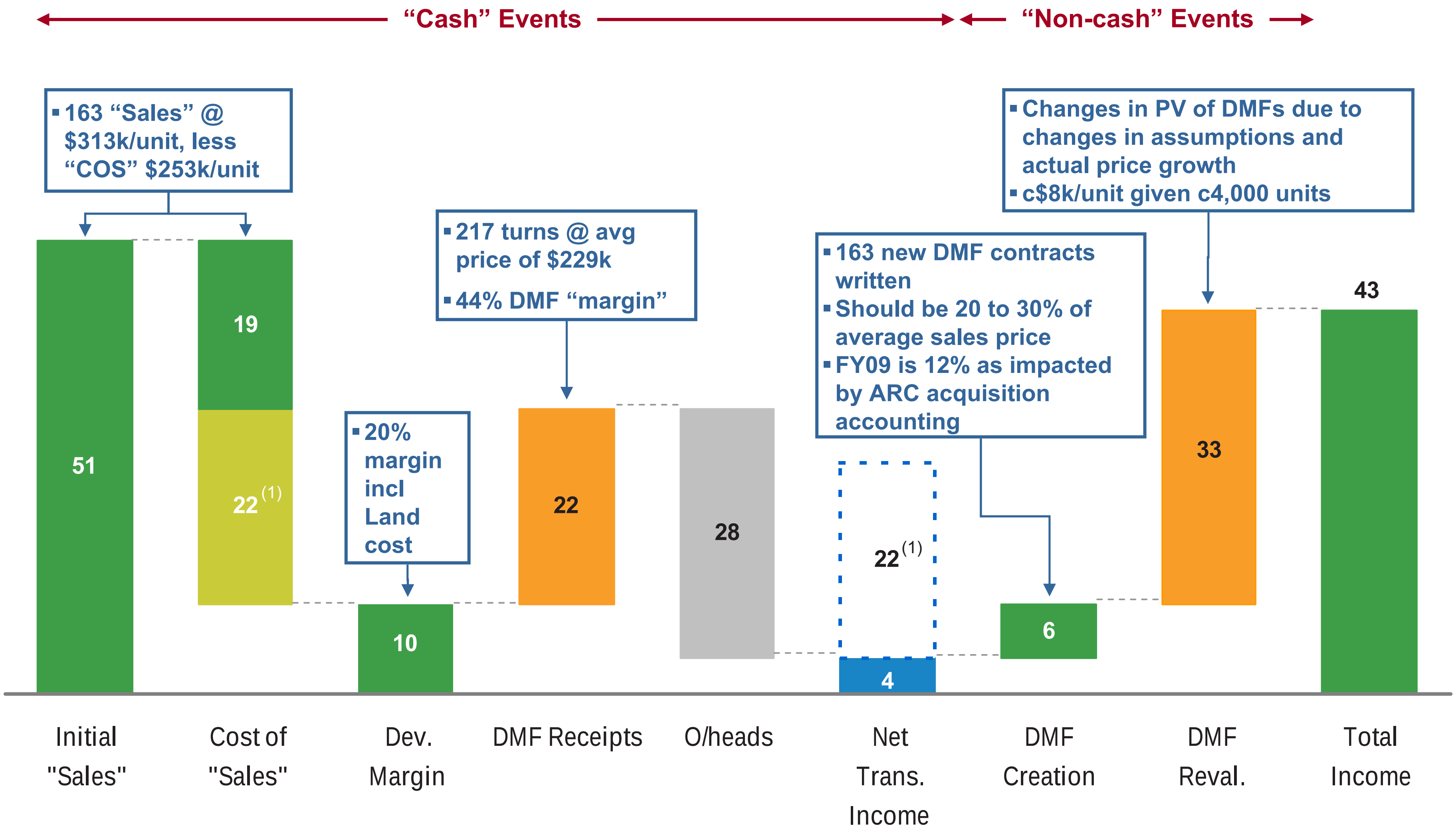
Stockland Retirement Living financial performance in FY09



Note:

1) In FY09, land component of cost of sales was $22m
   - Not a cash outflow during FY09
   - $16m impacted by the ARC acquisition (FY07) accounting; pre paid
   - Remainder pre paid by drawing from land bank

H1 mix was heavily non-cash due to portfolio re-pricing, whereas H2 was cash-oriented due to greater settlement volumes

Financial Performance Split by Half Years

Portfolio Re-Priced

- **Pricing had fallen behind local house price growth in recent years**
- **There was therefore an opportunity to re-base prices: 12% avg increase across portfolio in FY09**
- **Increase in present value of DMFs flows through P&L to Balance Sheet**

	1HY09	2HY09	FY09
New units settled	62	101	163
Established units settled	104	113	217
Development Margin	3	7	10
DMF Receipts	10	12	22
Net Overheads	(15)	(13)	(28)
Net Transactional Income	**(2)**	**6**	**4**
DMF Creation	2	4	6
DMF Revaluation	29	4*	33
'Non-cash' Income	**31**	**8**	**39**
Operating Profit	**29**	**14**	**43**

Settlement Volume

- **Slow first half as incoming residents took longer to sell their current homes**
- **Development completions skewed to second half**

* Net of $8m adjustment due to changes in capital growth and discount rate assumptions

There will almost always be some non-cash profit from DMF Revaluation

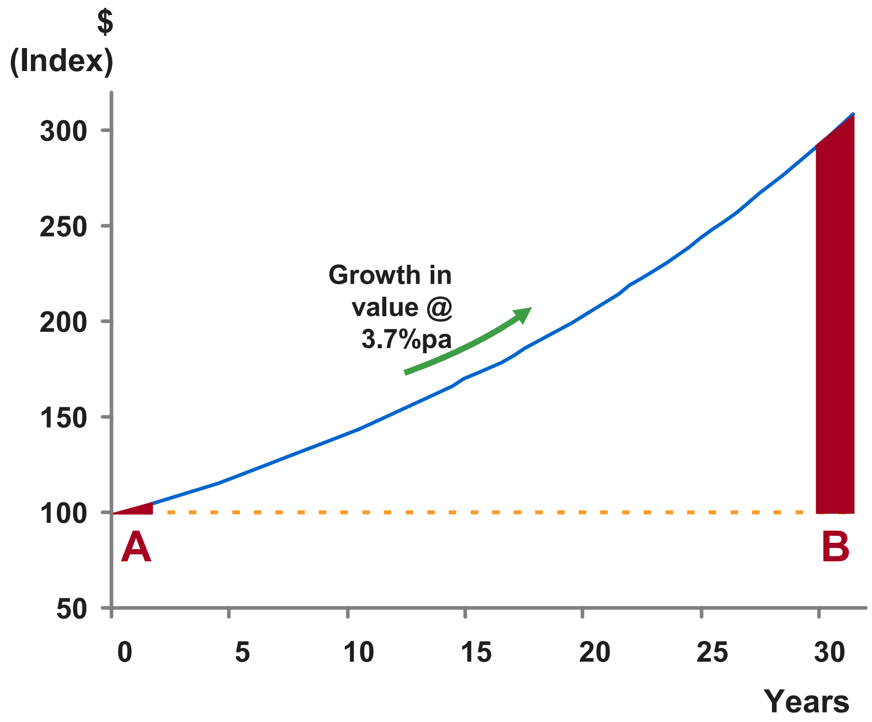
- **Non-cash DMF revaluations were a large component of the FY09 profit results ($33m)**
  - This was driven by a number of events in FY09 such as re-pricing of our product in order to address the differential between our unit prices and median house prices

- **A question that arises is whether this magnitude of DMF revaluation can be expected in future?**
  - Answer: we would not expect such a large revaluation item, but there will almost always be some DMF revaluation

- **This is why …**

1. Hold all valuation assumptions constant
2. At the end of each year, the DMF valuation changes in two ways:
   - Area "A" drops off: the present value of the DMF stream <u>decreases</u> by the value of one year's worth of DMFs
   - Area "B" is included: the present value of the DMF stream <u>increases</u> by the difference between the old terminal value and the new terminal value (area "B")
3. Net impact results in a positive revaluation
   - The present value of area "B" is greater than the present value of area "A"
   - All else being equal and unchanged, you would expect the DMF revaluation to be equal to the modelled growth rate multiplied by the present value of the DMF
   - Over time, this is realised as annual cash receipts

<u>Impact of Capital Growth on DMF Value</u>



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Components of a simple DMF model

Development Profit

- Very similar to Residential Communities lot sales
- It's a price, volume and margin business

DMF Creation (above the line)

- Addition of new contracts to the Balance Sheet that have been sold through Development activity (PV of expected DMF, all residents through the end of the model term)
- Typically 20 to 30% of the gross sale value of a unit, but depends on key assumptions: price growth, discount rate, turnover and tenure on exit assumptions

DMF Turnover Profit

- The DMF "margin" earned varies by contract type and maturity
- Therefore, the DMF margin earned will grow with time

DMF Revaluation (above the line)

- Movements in the Balance Sheet value (PV of the current and future established DMFs)
- Depends on price growth, discount rate, turnover, and tenure on exit assumptions
- Contract terms will also influence this calculation

Assumptions	
New units settled (units)	X
Average Price ($)	Y
Margin (%)	Z
Development Profit	**X * Y * Z**
DMF Creation as % of Gross Sale Value (%)	V
DMF Creation	**X * Y * V**
Established units settled (units)	A
Average DMF Achieved ($/unit)	B
DMF Turnover Profit	**A * B**
Actual Price Growth (%)	C
Reval for Assumed Price Growth of 3.7% ($/unit)	D
Reval for Price Growth greater than assumed ($)	E = f(C,D)
DMF Reval	**A * D + E**
Book Value of DMF	NPV of Turnover Profit

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