

# Stockland Retirement Living

6<sup>th</sup> June 2007



North Lakes Retirement Village, QLD

# Outline

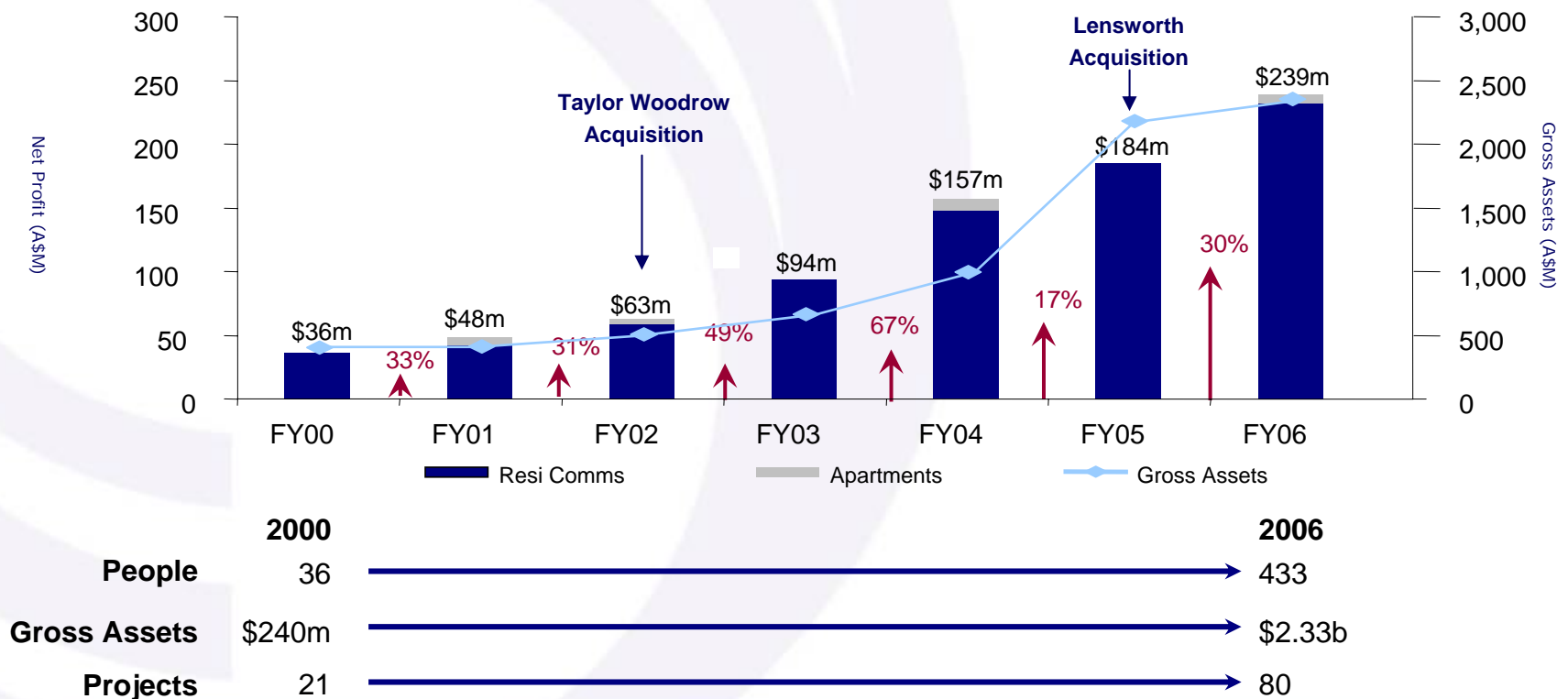
- Development Division strategic direction
- Financial overview
- Stockland retirement living business



Burnside Retirement Village, VIC

# History of Development Division

- Australia's largest residential developer – market leader
- Consistent profit performance past 7 years
- Residential Communities has been the driver whilst our Apartments business has been gathering scale





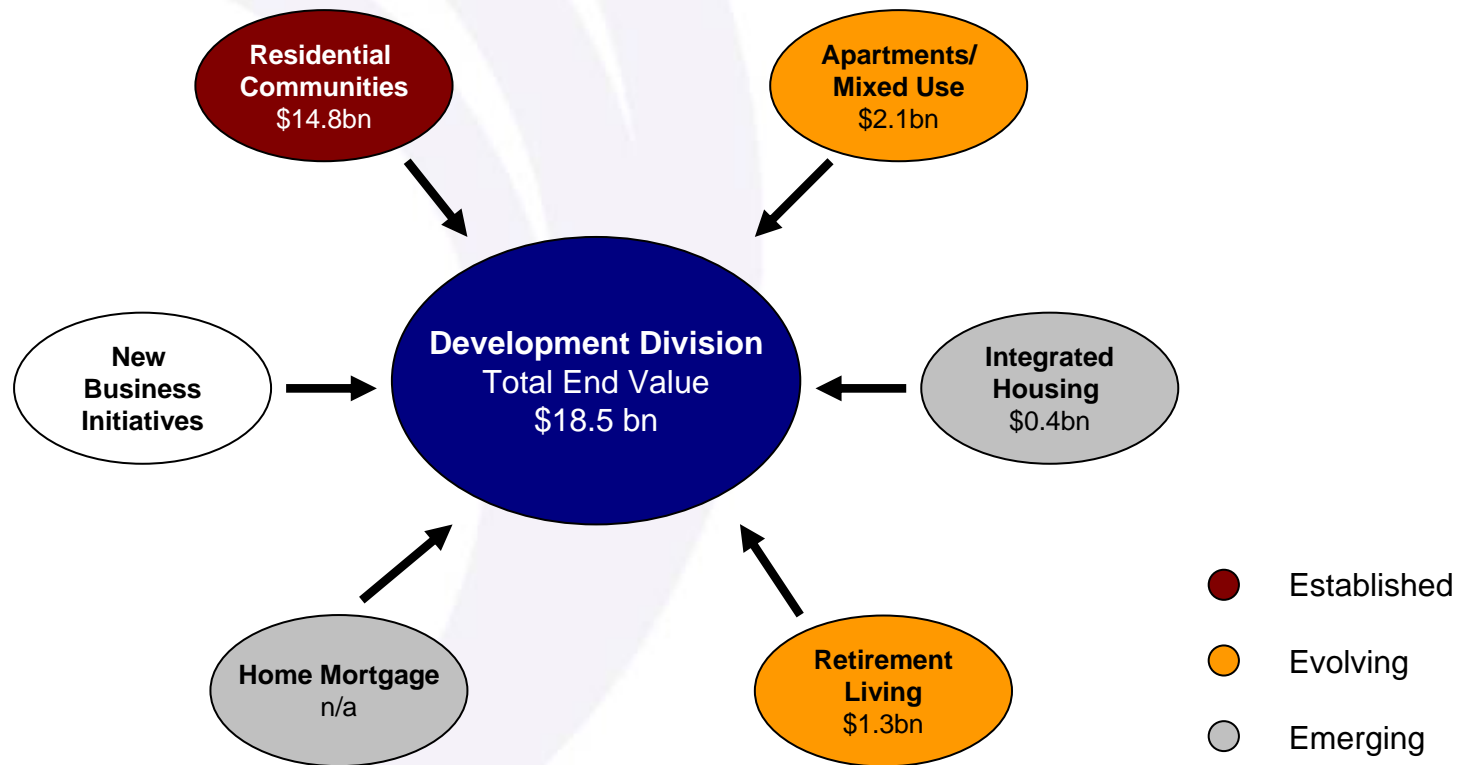
# Development Division Strategic Direction

- Continue to focus the Division on a “Product Leadership” strategy
- Continue to grow our core market leading Residential Communities business and evolving Apartments business
- Extend into activities that add value/create synergies with core businesses
- Diversify our mix of income between trading and annuity



# Drivers of Future Growth

- Diversified income streams (sources & type)
- At various stages of evolution
- Scalable model will support growth into new areas

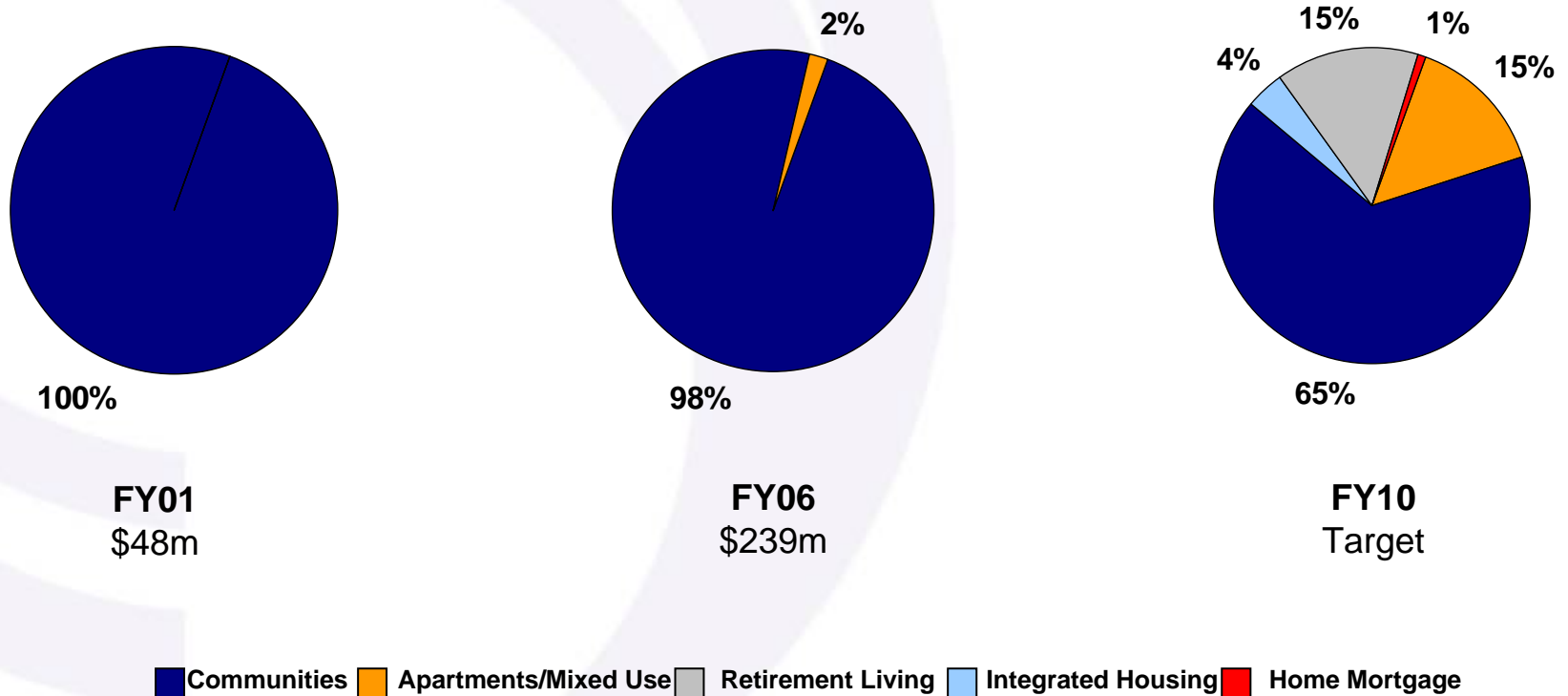


\*As at February 2007

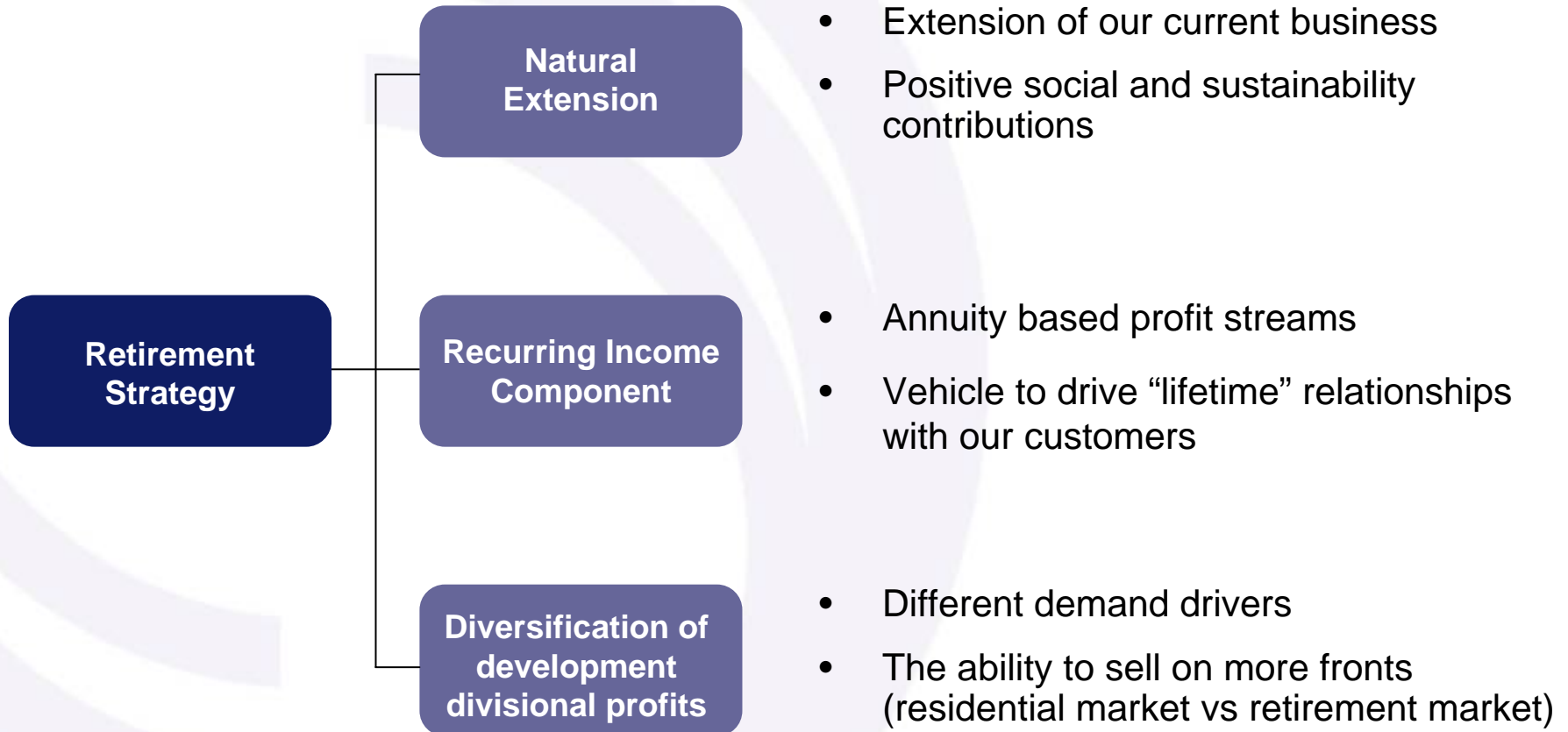
# Diversified Earnings Base

- We have the platform in place to achieve a more diversified income base by FY10

## EBIT Mix Analysis – Development Division



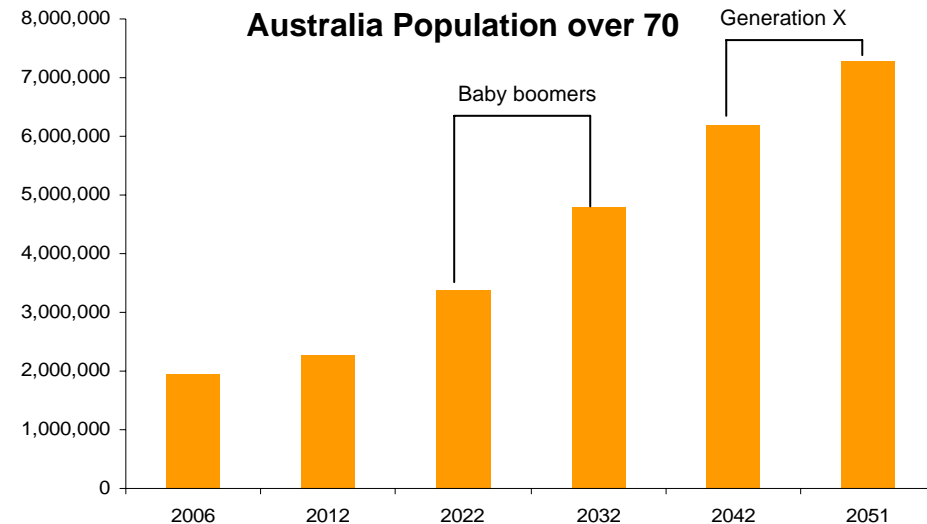
# Retirement Living - Strategic Rationale



# Strength of the Retirement Living Sector

## 1. Growth Sector

- Retirement segment 70+ has approximately 1.9 million people
- As the baby boomers move into this segment the 70+ population will grow by 146% in the next 25 years
- Currently only circa 4% move into Retirement Villages
- In addition, if the adoption rate for Retirement Villages moves towards international counterparts (circa 10%), and beyond this will substantially increase this segment



Take Up

	2006	2012	2022	2032	2042	2051
	1,942,249	2,279,915	3,375,900	4,794,882	6,189,124	7,277,101
3%	58,267	68,397	101,277	143,846	185,674	218,313
6%	116,535	136,795	202,554	287,693	371,347	436,626
9%	174,802	205,192	303,831	431,539	557,021	654,939
12%	233,070	273,590	408,108	575,386	742,695	873,252

Source: ABS



# Strength of the Retirement Living Sector

## 2. Fragmented Market

- Despite recent consolidation in the sector, the top five operators control less than 35% of the Retirement Living sector
- There is no dominant national brand in this sector
- The main growth driver is delivering “new” product - Stockland is well placed



Taylors Hill Retirement Village, VIC

# Strength of the Retirement Living Sector

## 3. Changing Needs Will Create New Opportunities

- Wealthier aging baby boomers will create new segments
- Currently, the market is “push” orientated – move towards a lifestyle driven solution
- Alternative financial models will evolve



Bundoora Retirement Village, VIC

# Start-Up Business Plan & ARC Strategic Fit

## Consistent with Strategy

- The ARC acquisition was consistent with our Retirement Living strategy adopted 18 months ago:
  - Market entry strategy was to focus on unlocking the 3,000+ unit sites within our Residential Communities portfolio ✓
  - Seek acquisitions only when they represented value ✓
  - No desire to enter the aged care market – preference was to form strategic alliances ✓
- Was the logical acquisition to deliver scale to our Retirement Living Business



# Financial Overview



Patterson Lakes Retirement Village, VIC

# What is a DMF Contract?

- Developer/operator creates a “community” village that has residential property and common facilities/services which are exclusive to the resident of the village, ie;
  - community facilities;
  - recreation facilities; and
  - retail, medical, health etc
- Developer/operator sells the residential product but “funds” the upfront cost of providing the common facilities
- Resident buys a residential product and, as a contribution to these common facilities, agrees to enter into a contract where they will give the developer a % of the resale price of their home when they sell/move. This is called a “Deferred Management Fee” (DMF)
- The industry standard, commercial structure of a DMF contract is:
  - Resident will pay 3% p.a (of the resale price) to the operator for every year they hold/reside in the village;
  - Their total liability is capped at 30% of the resale price of the property; and
  - In addition, at the time of the resale, resident pays a “make good” cost and an administration fee of 2.5%
- As such, the developer/operator has two sources of cashflows from this activity
  - Cash on initial sale
  - DMF contribution at time of resale (and at every subsequent resale in perpetuity)



# Sources of Income

There are three sources of income in the Profit & Loss statement under AIFRS

## Non-Recurring

1. Development Profit
  - On initial sale (difference between selling price and construction cost)
2. Initial recognition of Deferred Management Fee (DMF) asset
  - Created on initial sale of unit (present value of future income stream)

## Recurring

3. DMF Asset reassessment
  - Occurs annually
  - Dependent on inflation, market movements, average term of occupancy and forecast capital growth



Plenty Valley Retirement Village, VIC

# AIFRS Profit Recognition v's Cash Receipt

## Assumptions

### (1) Initial Creation

- Development Costs (80)
- Sale Price 100
- Development Profit 20

### (2) Tenure of Resident

- Term = 10 years

### (3) Valuation of DMF (Yrs 1-10)

- 3% average Capital Growth (Yrs 1 to 6)
- 4% average Capital Growth (Yrs 7 to 10)
- Discount @ 12%

### (4) Re-sale Assumptions

- Resale Price = \$150
- 30% DMF = \$45

Year 0

### (1) Development Profit

- Construction
- Initial Sale Price

### (2) DMF Creation

- \$100 (initial sale price) compounded @ 3% for 6 years and 4% for 4 years = \$140
- DMF contribution @ 3% for 10 years = 30% = \$42
- PV of the DMF (\$42) @ 12% = \$14

Year 1

### (3) DMF Reassessment

- Future sale price still \$140
- DMF still \$42
- PV @ 12% for 9 years = \$15
- Increase in DMF Value (\$15 - \$14 = \$1)

Years 2 - 9

### (4) DMF Reassessment

- Increments years 2 - 6
- Increments years 7 - 9

Year 10

### (5) Sale by Resident

- DMF cash receipt (30% of \$150)
- DMF reassessment
  - Initial creation (14)
  - Sum of annual reassessments (21)
  - DMF receipt 45
  - Additional value 10

Profit	Cash
20	(80) 100
14	-
1	-
10	
10	
	45
10	
<b>65</b>	<b>65</b>

# Balance Sheet Accounting

- The underlying substance of retirement village transactions, consists of two parts:
  1. Development profits from producing and selling retirement village units; and
  2. Gaining the right to annuity-style deferred management fee (DMF) income.
- However, AIFRS additionally requires an amount equal to the value of retirement village units sold to residents, to be added to both sides of the balance sheet:
  3. Creation of an asset
    - Investment in retirement village units
  4. Creation of a liability
    - Obligation to residents
- The effect is that both sides of the balance sheet are grossed up
  - All Stockland's debt providers have agreed to exclude this gross up for the purpose of covenant ratio calculation

# DMF cashflow effect

- Once a village hits maturity from its original development then it will provide a constant level of cashflow

## Working example

200 unit village @ average unit price of \$320k

$$\begin{aligned} 200 \times \$320\text{k} &= \$64\text{m} @ 8.25\% \text{ (average 12 yr turnover)} = \$5.28\text{m} \\ &= 5.28\text{m} \times 30\% = \$1.58\text{m pa} \end{aligned}$$



Note: All numbers are for illustrative purposes only and are present value.

- As most of the portfolio of ARC existing villages are already mature, we already have a consistent cashflow

# How did we acquire ARC

## Purchase Price

\$329m - headline price

\$ 35m - adjustments & transaction costs

\$364m - purchase price

## **We have valued ARC on the following criteria:**

### Existing Villages

- PV of the future DMF's on existing villages
  - Assumed growth rates 1-4% pa
  - Discount rates 10-14%
  - Turnover rate 12 years

### Under Construction

- IRR on the sale of the product until sold (15%)
- PV of the DMF stream to be created
  - Assumed growth rates 1-4% pa
  - Discount rates 10-14%
  - Turnover rate 12 years
- Costs to complete for work under construction (at acquisition) was capped with the vendor

### To be developed

- IRR on the sale of the product until sold (15-20%)
- PV of the DMF stream to be created
  - Assumed growth rates 1-4% pa
  - Discount rates 10-14%
  - Turnover rate 12 years

It is important to note that the “value” of the future DMF varies on the key assumptions of capital growth and discount rate. For this reason, our philosophy is to adopt a realistic/conservative approach to the valuation.

## **Working Example**

Present Value (\$'000) of a DMF stream of a product sold for \$300,000

### Capital Growth Rate (pa)

Discount Rate

	1%	2%	3%	4%	5%
9%	42	46	51	59	62
10%	38	42	47	51	57
11%	35	39	43	47	52
12%	32	35	38	43	47
13%	29	32	36	39	43
14%	27	30	33	36	40



# Financial Outlook for Stockland Retirement Living

- Target is to achieve circa \$40m EBIT by FY09
- Target is for Retirement Living to contribute 15% of Development Division earnings by 2010
- Expected split of income over next 3 years:
  - 60% Development
  - 40% Recurring
- Expect business to be cashflow positive in FY08



Donvale Retirement Village, VIC

# Stockland Retirement Living Business



**Taylors Hill Retirement Village, VIC**

# History of ARC

- ARC were innovators and industry leaders.

1970

Knowles integrated housing development

1973

Move into retirement sector.  
First commercial “for profit” operator in this space.

1976 - 2006

18 retirement villages and 6 Aged Care facilities developed

2007

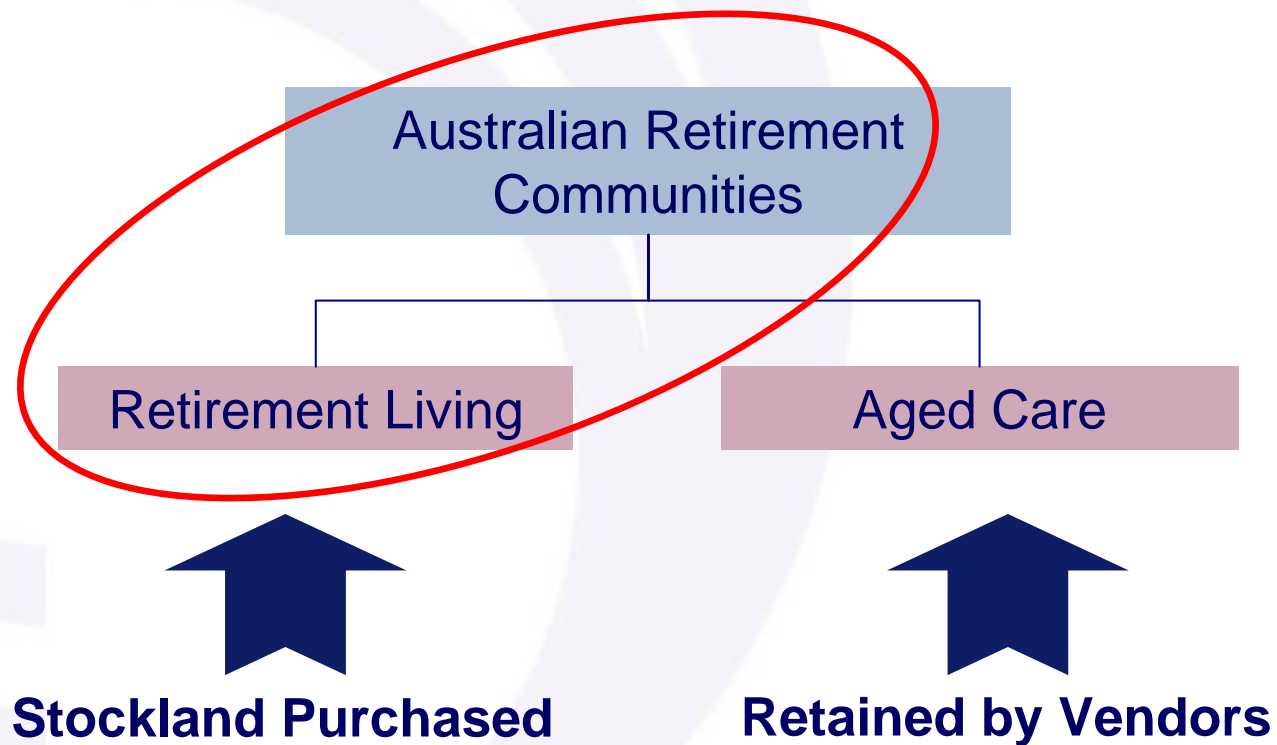
Top 5 Retirement operator/developer in Australia.  
Retirement business acquired by Stockland



North Lakes Retirement Village, QLD

# ARC Retirement Village Business

- Acquisition of retirement living business only.
- Formed strong strategic partnership with vendors in the aged care sector.





# ARC Retirement Village Business\*

## 17 Established Villages

- 2,850 units / homes
- 98.5% occupancy
- 12 years average tenure
- 8.6% average annual turnover

## 3 Villages Under Construction

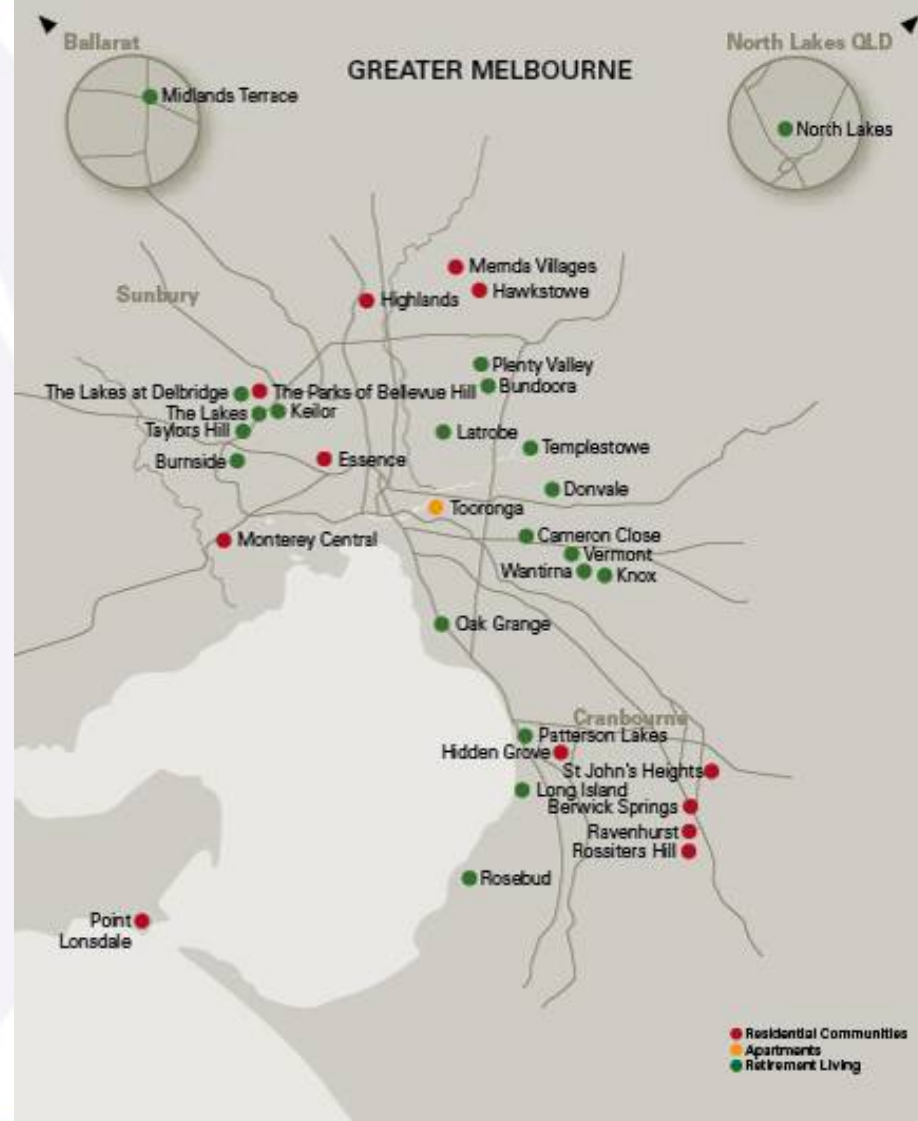
- 560 units / homes
- 85% complete
- Strong sales pipeline

## 6 Future Villages

- 825 units / homes
- Strategic locations
- Strong demographic

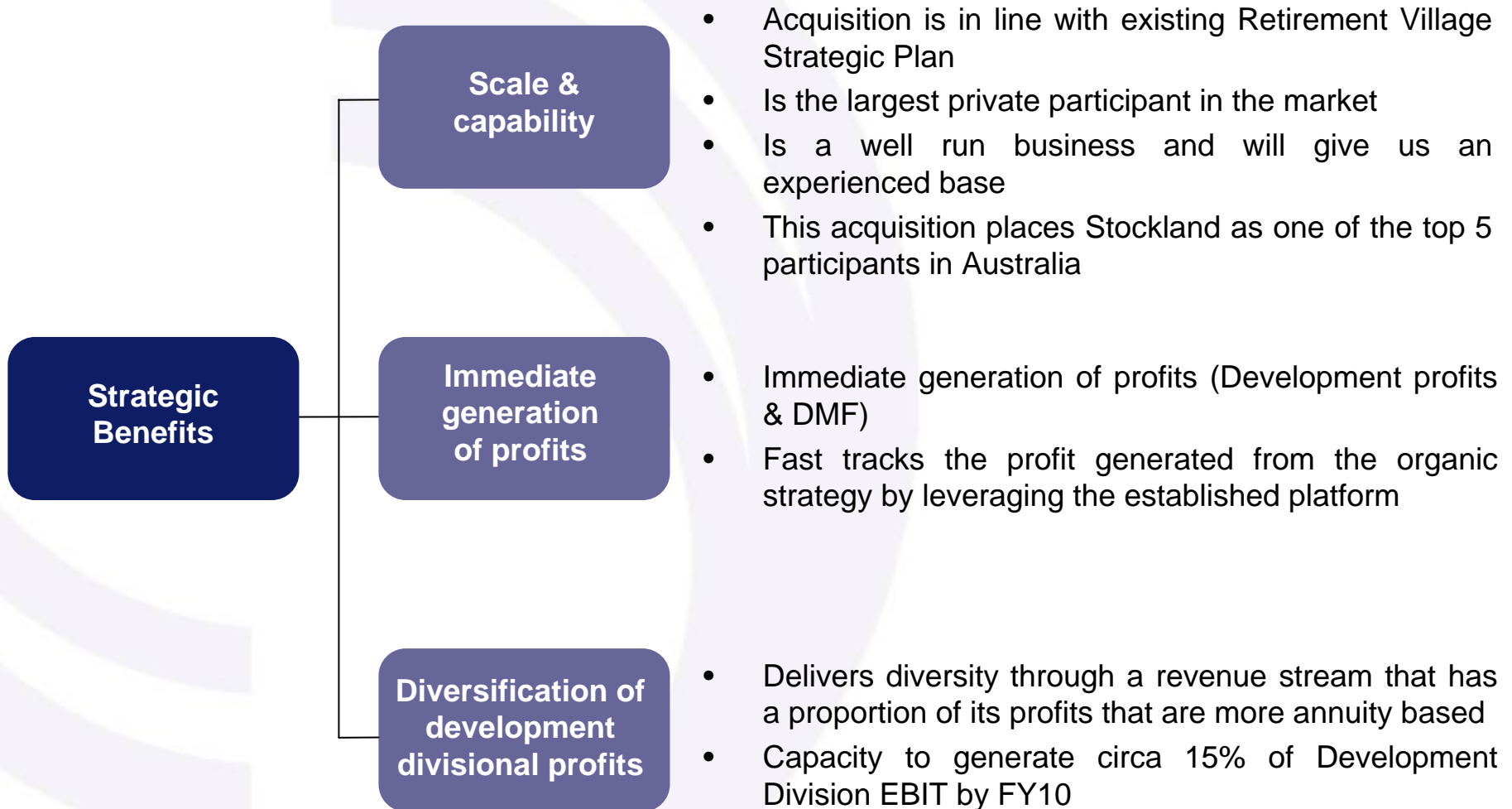
Village locations are complementary to our Residential Communities portfolio

\* As at February 2007



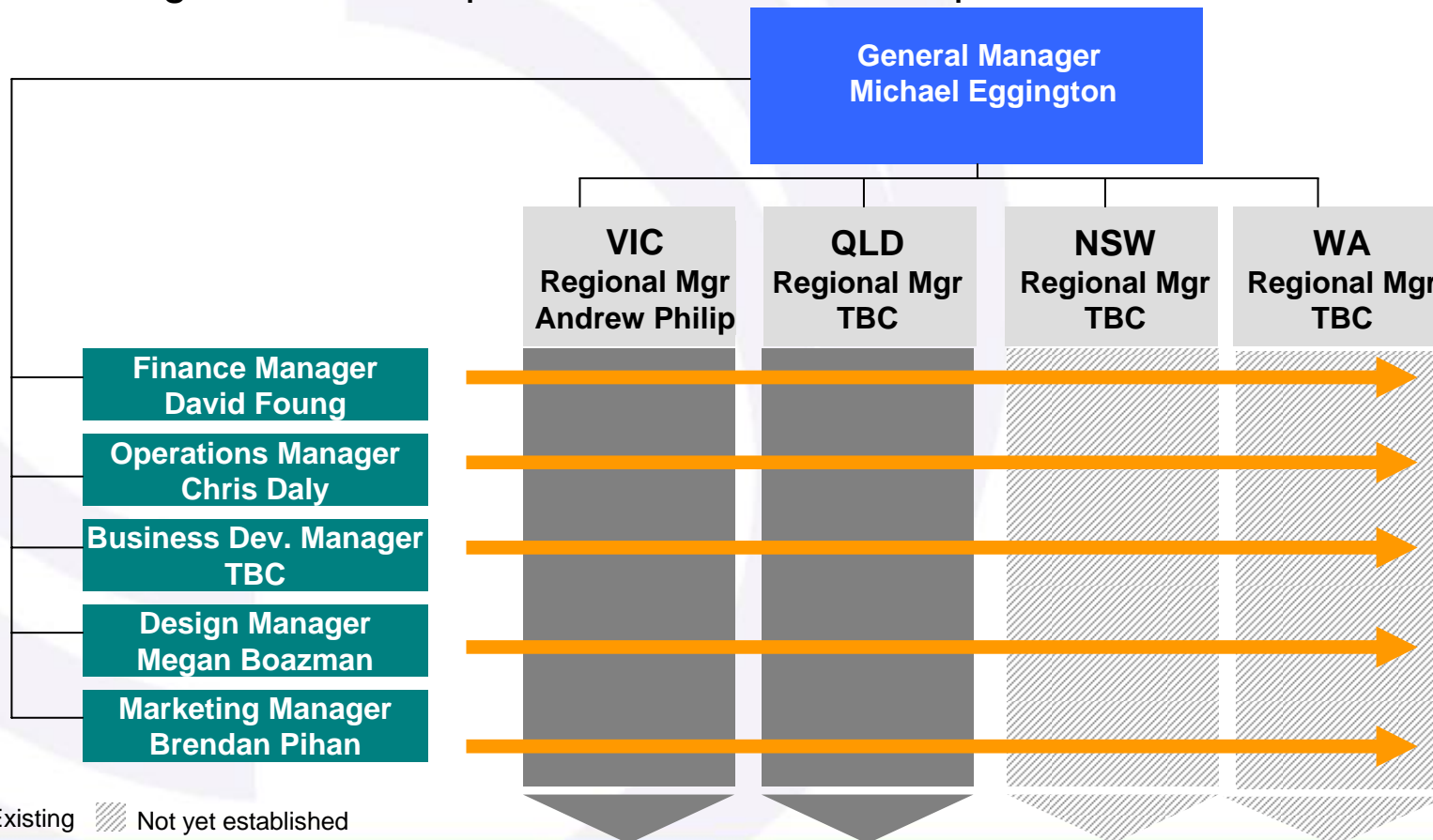


# Strategic rationale



# Stockland Retirement Living Business – Structure & People

- Matrix structure is consistent with the successful Stockland Residential Communities and Apartments model.
- Strong mix of development and retirement capabilities



# Retirement Living– value add to existing businesses

- Complementary with communities business:
  - increase the product offer
  - diversity in population
  - keeping extended families together
  - extends yields by higher density
- Collaboration with Stockland Retail: loyalty card/improve customer mix profile
- Planning approval friendly reducing standard approval timelines



# Strategy for Growth

## Goal

**To be the No 1 or 2 developer/operator in the Retirement Living Sector within 5 years**

## Four Key Areas for Growth

1. Unlock the Stockland pipeline
2. Property Management
3. Asset Management
4. Further M&A



Donvale Retirement Village, VIC



# Strategy for Growth

## 1.Unlock the Stockland Pipeline

- Deliver the organic opportunities within the existing residential communities portfolio (4,000+ lots)
- Additional development opportunity via new inventory acquisitions (in collaboration with Communities, Apartments and Retail Divisions)
- Other greenfield acquisitions



Cameron Close Retirement Village, VIC



# Strategy for Growth

## 2. Property Management

- Inject Stockland Brand
- Leverage marketing synergies with our Residential Communities, Retail and Capital Partners businesses
- Leverage Stockland's community development skill to improve services
- Leverage Stockland business systems, procurement and financing expertise



Knox Retirement Village, VIC

# Strategy for Growth

## 3. Asset Management

- Proactively 'asset manage' the existing villages to create value through redevelopment
  - Utilise Stockland's existing design capability in redeveloping existing villages to unlock greater value
  - Invest in community facilities to improve amenity and services
  - Lift the 'base' for future DMF contributions



LaTrobe Retirement Village, VIC

# Strategy for Growth

## 4. Future M&A

- Pro-active M&A activity to build scale and diversity:
  - Still fragmented competitor environment
  - Focus on smaller/private operators
  - State/localised opportunities



Templestowe Retirement Village, VIC

# Summary

- Stockland Development Division is in a strong position
  - Long track record of sustainable performance
  - Scale and diversity of business
- Clear strategy for the Retirement sector
  - Natural extension of our core business
  - ARC was a logical fit
- Strong platform for future growth from Retirement Living
  - Existing pipeline (4,000+)
  - Earnings contribution (target 15% FY10)



# Disclaimer

## **Corporation/ Responsible Entity**

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