

05

**STOCKLAND DIRECT OFFICE TRUST NO. 1
INVESTMENT REPORT**
2005



Stockland
DIRECT



STOCKLAND DIRECT OFFICE TRUST NO.1

THE DIRECTORS AND MANAGEMENT OF STOCKLAND FUNDS MANAGEMENT LIMITED (RESPONSIBLE ENTITY) ARE PLEASED TO PRESENT THE FIRST ANNUAL INVESTMENT REPORT FOR THE STOCKLAND DIRECT OFFICE TRUST NO. 1 (TRUST).

Unitholders will recall that the Responsible Entity issued a Product Disclosure Statement dated 10 September 2004 (PDS) offering units in the Trust to the public. The offer closed early and oversubscribed with 66.5 million units issued to unitholders on 19 November 2004.

Prior to the issue of the PDS, the Trust had acquired an indirect 50% interest in Waterfront Place, Brisbane (Property) in February 2004 which was underwritten and funded by a loan from Westpac Banking Corporation. This loan was repaid on issue of units in the Trust to investors pursuant to the PDS.

Accordingly, the Investment Report has been presented for the period from allotment of units to unitholders (19 November 2004) to 30 June 2005 (Period).

The Financial Report has been presented for the twelve months to 30 June 2005 which includes approximately four and half months where the Trust was owned by Westpac.

The Responsible Entity is pleased to confirm that the performance of the Property and the Trust for the Period is in accordance with the PDS and that proactive leasing management has secured new leases for vacant areas and timely renewals of existing leases with upcoming expiries.

Looking forward, the Responsible Entity and Stockland Property Management P/L (Property Manager) will continue to focus on major lease renewals and improving the building management systems commensurate with the Property's premium-grade status.

Finally, the Directors and management of the Responsible Entity would like to thank unitholders for their support of the offer and look forward to continuing to report strong performance from the Trust and to providing new unlisted property investment opportunities to investors.

TRUST DISTRIBUTIONS

Summary of Trust Distributions

| For the period from 19 Nov 2004 to 30 Jun 2005 | General Investors | Geared Investors |
|---|-------------------|----------------------|
| Trust distributions ⁽¹⁾ (cents per unit) | 4.91 | 4.91 |
| Tax deferred component | 100% | 100% |
| Investment Loan Interest | | |
| – Geared Investors only (cents per unit) | N/A | 2.67 |
| Cash distribution (cents per unit) | 4.91 | 2.24 |
| Yield (annualised)– actual | 8.00% | 9.13% ⁽²⁾ |
| Yield (annualised)– PDS forecast | 8.00% | 9.13% ⁽²⁾ |

(1) Includes the distributions for the period 19 November 2004 to 31 December 2004, the quarters ended 31 March 2005 and 30 June 2005.

(2) For Geared Investors, this represents the cash return (annualised) on the First Payment of \$0.40 per unit as per the PDS.

A total of \$3,266,000 was distributed to unitholders which equates to 4.91 cents per unit for the Period. This is in line with the forecast distributions in the PDS of an annualised yield of 8.00% per annum and 9.13% per annum for General Investors and Geared Investors respectively.

Your Distribution Statement for the quarter ended 30 June 2005 accompanies this Annual Report and the final distribution was paid on 24 August 2005.

The distributions to investors for the Period were 100% tax deferred as disclosed in your 2005 Tax Statement which also accompanies this Annual Report.

DISTRIBUTION OUTLOOK

The Trust distributions have been consistent with those forecast in the PDS and this is expected to continue over the coming year. The forecast yield for the year ending 30 June 2006 is 8.05% for General Investors and 9.25% for Geared Investors in line with the PDS.

NET TANGIBLE ASSETS

As at 30 June 2005, the net tangible asset (NTA) per unit of the Trust is 89.94 cents and excludes the impact of financial instruments.

The introduction of International Financial Reporting Standards on 1 July 2005 is expected to reduce the NTA of the Trust to zero due to the classification of unitholders funds as a liability for financial reporting. Accordingly, the definition of NTA will be amended to exclude the impact of this re-classification. The amended definition of NTA will be reported to unitholders in the next Investment Report for the six months ended 31 December 2005. The Responsible Entity does not expect this change to adversely affect unitholders.

LIMITED LIQUIDITY FACILITY

As detailed in the PDS, Westpac agreed to provide a Limited Liquidity Facility (LLF) to acquire up to 521,000 units per quarter from unitholders until 30 September 2009 subject to certain terms and conditions. The purchase price for units acquired under the LLF is equal to the NTA per unit less a 2.5% discount. The net proceeds to unitholders will be the purchase price less the cost of the transfer (including any stamp duty and processing fees).

Successful applications for 200,000 units were received from unitholders under the LLF during the Period and are effective 1 July 2005. Further details of the LLF can be obtained from the Responsible Entity's website.

WATERFRONT PLACE

THE PROPERTY

A 50% indirect interest in the office building and carpark known as Waterfront Place situated at 1 Eagle Street, Brisbane CBD.

WATERFRONT PLACE: EAGLE STREET, BRISBANE

The Property is a 36 level premium grade office building. Located on Eagle Street and fronting the Brisbane River, Waterfront Place is Brisbane's prime commercial location providing panoramic river and Brisbane vistas from all commercial levels. Completed in 1990, Waterfront Place includes a 468 space car park and is one of Brisbane's most highly specified buildings from both architectural and technical perspectives.

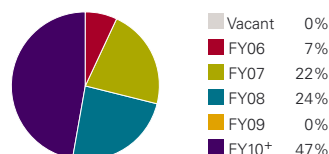
The building's foyer presents a grand entrance with extensive marble, granite and stainless steel finishes. The building provides floor plates averaging at 1,800m².

| | |
|--------------------------------|--|
| Location | Brisbane CBD, QLD |
| Acquisition Date | Feb 2004 |
| Ownership/Title | 50%/Freehold/Leasehold |
| Cost Including Additions | \$152.0 million |
| Independent Valuation | December 2003 |
| Valuation/(\$/m ²) | \$145.5 million (\$4,935/m ² *) |
| Capitalisation rate | 7.75% |
| Discount rate | 9.50% |
| Net Lettable Area | 58,965m ² |
| Car parking spaces | 468 |

* 100% interest.

| Major Tenants | NLA ^m ² |
|--------------------------|-------------------------------|
| Minter Ellison | 7,750 |
| PWC | 7,288 |
| Ernst & Young | 5,376 |
| Corrs Chambers Westgarth | 3,733 |
| Phillips Fox | 3,679 |

LEASE EXPIRY PROFILE



LEASING ACTIVITY

A proactive leasing approach focused on tenant retention continued to drive the leasing strategy for the Property. During the Period, new leases and lease renewals were executed for over 15% of the Net Lettable Area (NLA) with average lease terms of 5.6 years. This strong leasing activity has resulted in the Property occupancy level increasing to 99.7%.

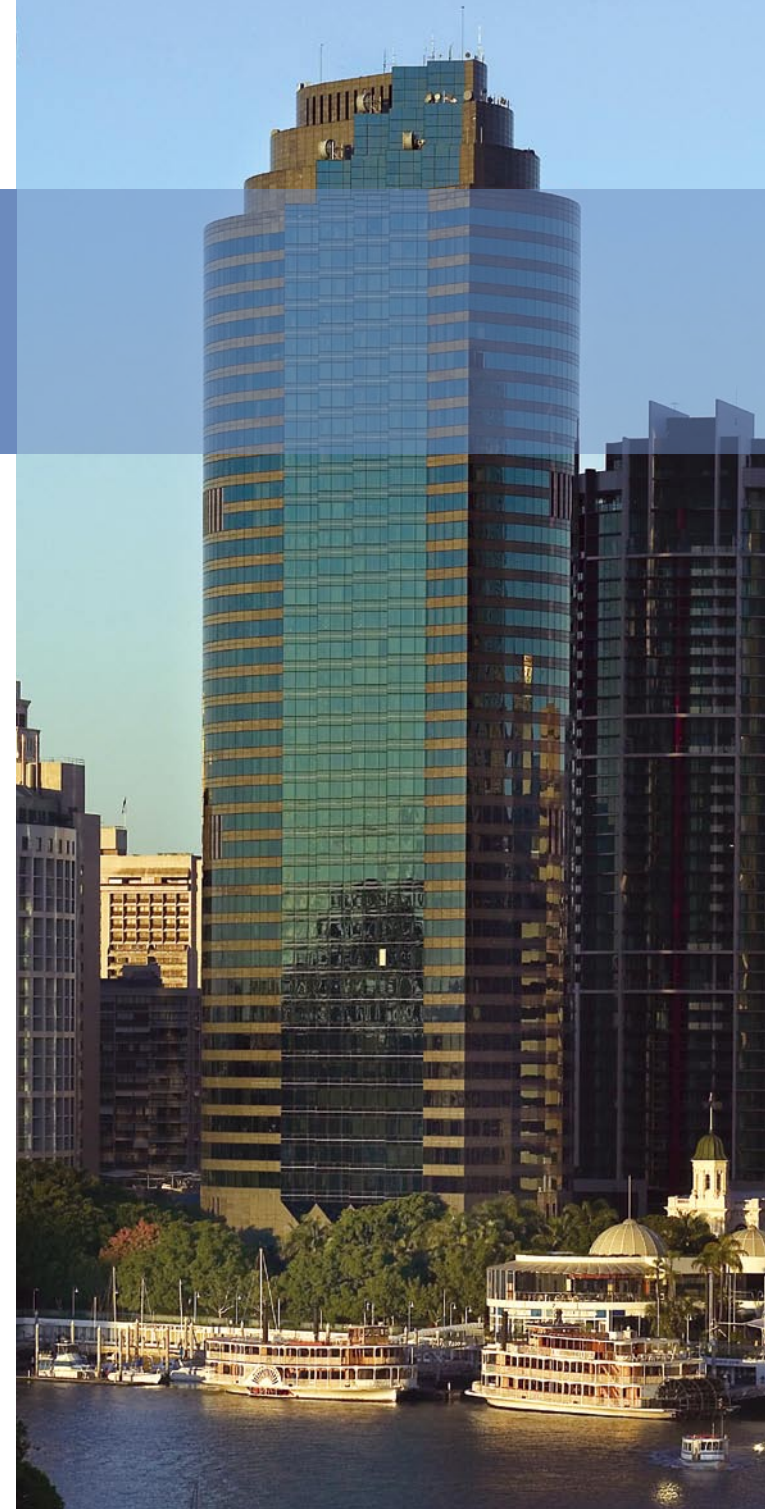
CAPITAL EXPENDITURE

The upgrade of the customer service desk on the ground floor of the building was completed during the Period as planned for a total cost of \$165,000. This upgrade included the relocation of the front-end building controls and the CCTV to the customer service desk to further improve the efficiency of the on-site property management personnel in servicing tenants and visitors.

PROPERTY OUTLOOK

With a new premium grade building expected to be completed in the Brisbane CBD over the coming months, the market may experience a slight softening in tenant demand in the short term which is not expected to impact the performance of the Property or the Trust.

The medium to long term outlook is positive and underpinned by solid economic growth, strong investor sentiment and a modest supply outlook. The Brisbane office market remains fundamentally strong and the Property is well positioned to achieve further rental growth over the medium to long term.





Stockland

DIRECT

Responsible Entity

Stockland Funds Management Limited
ABN 86 078 2081 722

Directors of the Responsible Entity

Graham Bradley (Chairman)
David Kent
Matthew Quinn
Tony Sherlock
Terry Williamson

Company Secretary of the Responsible Entity

Phillip Hepburn

Responsible Entity's office

Level 16, 157 Liverpool Street
Sydney NSW 2000

Mail GPO Box 998
Sydney NSW 2001

Telephone (02) 9020 8320 or
1300 652 748 (local call cost)
Facsimile (02) 9321 1592

Email: stocklanddirect@stockland.com.au

Internet: www.stockland.com.au/unlistedpropertyfunds

Registrar

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Mail GPO Box 7045
Sydney NSW 2001

Telephone 1300 855 080
Facsimile (02) 8234 5050

Email: sydney.services@computershare.com.au

Custodian

Trust Company of Australia Limited
Level 4, 35 Clarence Street
Sydney NSW 2000

Auditor

KPMG
10 Shelley Street
Sydney NSW 2000