Highlights

We are pleased to provide investors with the investment report for Stockland Direct Office Trust No. 1 (SDOT1) for the six months to 31 December 2010. The highlights for the period include:

- The sales process is continuing, with a purchaser currently undertaking due diligence.
- SDOT1's NTA decreased reflecting offers received during the sales campaign.
- The loan facility was extended to 30 September 2012 to provide flexibility during the sale process.
- SDOT1's interest rate exposure will remain unhedged while the sale process continues.

Stockland

Stockland Direct Office Trust No. 1 (SDOT1)

Key results

Assets under management
as at 31 December 2010

Assets under management	$217.1 million

UNIT PRICE*

$1.66

SDOT1's unit price decreased by $0.02 to $1.66 as at 31 December 2010. The decrease was primarily as a result of an adjustment to the value of its 50% holding in Waterfront Place to reflect offers received during the sales campaign.

* Net tangible assets per unit as calculated in accordance with Australian International Financial Reporting Standards.

Distributions and returns
to 31 December 2010

General Investors

1H11 distribution return	3.01%
1H11 total return	1.56%
Total return since inception per annum	16.44%

Geared Investors*

1H11 distribution return	2.04%
1H11 total return	(0.21%)
Total return since inception per annum	25.92%

YTD DISTRIBUTIONS

3.01c per unit

Gross distributions totalled 3.01 cents per unit, resulting in a 3.01% distribution return for the six months to 31 December 2010. The distribution for Geared Investors, after deducting 2.19 cents per unit of interest expense, totalled 0.81 cents per unit, giving a 2.04% distribution return.

The September and December 2010 quarterly distributions increased, following a reduction to the March and June 2010 distributions to fund capital expenditure and leasing incentives.

* Returns on the $0.40 per unit paid by Geared Investors.

Debt
as at 31 December 2010

Loan facility	$108.4 million
Drawings	$100.2 million
Interest rate*	BBSY + 2.30%
Maturity date	30 September 2012

LOAN TO VALUATION RATIO

45.77%

There was no increase in the drawings on the loan facility during the six months to 31 December 2010.

The loan facility has been extended to 30 September 2012. While discussions regarding the potential sale of SDOT1's 50% share of Waterfront Place continue, the loan facility extension to 30 September 2012 will provide sufficient flexibility in accommodating the sale and wind up of SDOT1. In addition to the extension, the maximum loan to valuation ratio allowable under the facility was increased from 50% to 55%. The facility can be terminated at any time at no cost to SDOT1.

The interest rate swap on the main facility expired on 1 July 2010. SDOT1 is not expected to enter into a new swap contract while the sale process is continuing.

The loan to valuation ratio of 45.77% is below the 55% maximum allowed by SDOT1's financier.

* Excludes the interest rate swap that expired on 1 July 2010.

Property overview

Key property statistics as at 31 December 2010

Property	Waterfront Place
Independent valuation*	$219.0 million
Valuation date	30 June 10
Net lettable area (sqm)**	58,978
Occupancy rate	99%
Weighted average lease expiry (years by income)	4.45
Major tenants by Net Lettable Area	Minter Ellison Ernst & Young Phillips Fox Corrs Chambers & Westgarth BankWest

* Represents SDOT1's 50% interest in Waterfront Place.

** Net lettable area of Waterfront Place in its entirety.

Property update

A number of new leases were secured during the period, resulting in the occupancy rate at Waterfront Place increasing to 99% as at 31 December 2010. Negotiations are ongoing with tenants that have lease expiries over the next 12 months to try and minimise the impact of those expiries.

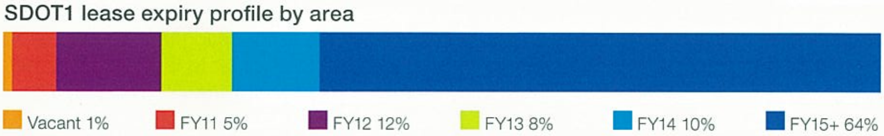
Capital expenditure works continued throughout the period under the Waterfront Place refinement program. The purpose of the program is to ensure Waterfront Place maintains its position as one of Brisbane CBD's pre-eminent office buildings with the latest facilities to compete with new stock entering the market. The program includes a major plant and equipment upgrade as well as refurbishing the lobby and the addition of new tenant amenities. The program is expected to be completed in 2013.

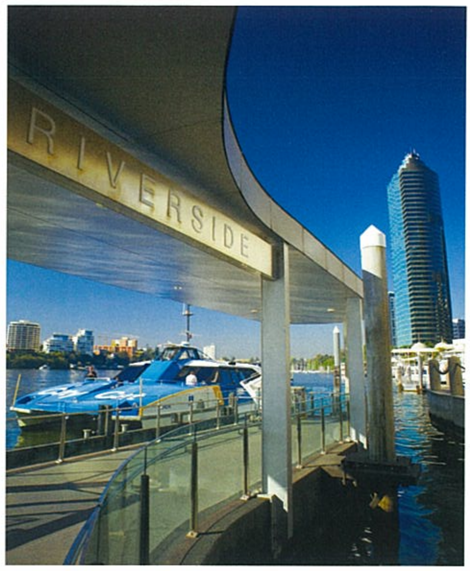
Waterfront Place was impacted by the floods that closed the Brisbane CBD on 11 January 2011. The building's two levels of underground car parking were flooded, however the building's lobby remained unaffected. As the majority of the building's essential services and plant are housed above ground level, the building was able to re-open to tenants on 24 January 2011. The damage to the car park and the loss of rent due to the building closure are currently being assessed with a full report due by the end of February 2011.

Negotiations are continuing with a proposed purchaser for the sale of SDOT1's 50% interest in Waterfront Place. A further update on the sale process will be provided once negotiations have concluded.

The following graph illustrates the lease expiry profile of SDOT1 by area.

SDOT1 lease expiry profile by area





Market update*

The Brisbane CBD market continued to perform well over the six months to 31 December 2010. Tenant demand remained strong with 45,234 sqm of net absorption over the period, 17,525 sqm of which was in prime grade assets. No new supply entered the market during the six months and with the increased tenant demand, the market vacancy decreased to 8.31%, with the prime vacancy rate dropping to 5.43%. Despite the increase in demand, gross face rents remained flat over the period at $669/sqm, however there was a 11% increase in tenant incentives which resulted in gross effective rents dropping 4.4% to $453/sqm.

There are currently three office buildings under construction and due for completion within the next 24 months, which will add 129,000 sqm to the CBD office market.

The investment market remained quiet over the period with only two major transactions totalling $587 million occurring. Prime investment yields remained static, ranging between 7.25% and 8.00% during the six months to 31 December 2010.

* Sourced from the Q4 2010 Brisbane CBD Office Market Report by Jones Lang LaSalle.

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