Stockland

2007 Stockland Capital Partners Investment Report

June 2007

Optus Headquarters

Stockland Capital Partners—Investment Report 30 June 2007

We are pleased to present investors with the annual Investment Report for the 2007 financial year.

It's been another impressive year with strong performances from our funds, a successful launch, an exciting overseas acquisition, a move into mortgage broking and further expansion into the retirement living sector.

Stockland's unlisted property funds performed well throughout the year with Stockland Direct Office Trust No.1 and Stockland Direct Office Trust No.2 achieving total returns of 72.4% (General Investor) and 59.5% respectively for the year ended 30 June 2007. Stockland Direct Retail Trust No.1 also achieved good capital growth and delivered investors a total return of 12.7% for the six month period to 30 June 2007. Financial statements for each fund can be found at www.stockland.com.au/capitalpartners

In an active last half year, Stockland Direct Office Trust No.3 was launched in April 2007, raising $60 million in equity and complementing the suite of products offered by Stockland's Capital Partners business.

Based on feedback from our investors and their advisers, the format of this report has been extended to provide an overview of Stockland's activities over the past six months and our initiatives on corporate responsibility and sustainability.

Stockland

Stockland is one of Australia's largest diversified property groups, with strong capabilities in commercial, industrial, retail, residential and retirement living properties. With over 50 years of experience and over 1,200 employees, Stockland was voted Business Review Weekly's most admired company in 2006.

Stockland, a top 30 Australian Securities Exchange listed company, has been active over the past 12 months. Highlights include:

- Retail, Commercial and Industrial divisions each delivering operating profits of $252 million. The business achieved outstanding results with significant revaluation gains, low vacancies, good net income growth and increased development pipelines.
- Development division delivering an impressive 14% increase in profit to $273 million despite challenging residential conditions in New South Wales.
- Established UK and European platforms through the $525 million acquisition of UK property investment and development group Halladale.
- Delivery of retirement living strategy with the $328 million acquisition of Australian Retirement Communities.

- Development pipeline has now increased to almost $3 billion across the retail, commercial and industrial portfolio.
- Successful capital recycling with profits from the sale of Saville Hotel Group used to fund the above growth initiatives.

Stockland Capital Partners

Stockland established its unlisted funds management business in 2004 to partner with both retail and wholesale unlisted investors to deliver property investment and development opportunities alongside Stockland. Today, the business constitutes a solid platform with over $850 million under management with a track record of strong performance.

To take this strategy to the next level, we have recently re-badged the Unlisted Property Funds division to "Capital Partners" and broadened the mandate to include wider products including unlisted, joint venture, co-investment and other product solutions appealing to a wider stakeholder base both locally and internationally.

Coinciding with the broadening of the mandate, Stockland has appointed Brett Newman as Chief Executive Officer – Capital Partners. Brett joins Stockland from Macquarie Bank where he was a Division Director within the Investment Banking Division of Macquarie's Real Estate Capital Group for the past three years. Brett also has extensive experience in the United Kingdom, where he established and headed Challenger Group's UK operation for four years. Before this, Brett was a director of Challenger Life in Sydney.

Stockland Halladale

Stockland Halladale was formed in May 2007 following the acquisition of Halladale Group Plc. Halladale is a London Stock Exchange (AIM) listed property development, investment and funds management company with extensive market reach in the UK and an emerging European funds management business. Founded in 1991, Stockland Halladale's assets under management are almost $A2.2 billion and its development program has an end value of over $A1.2 billion.

Rynda, the European investment management arm of Stockland Halladale, recently announced further investments in it's Rynda en Primeur fund (which owns real estate throughout France) with substantial cornerstone investments from GIC, Schroders Real Estate and clients of Cushman & Wakefield Investors.

The acquisition of Halladale provides Stockland with a platform to pursue growth opportunities in the UK by combining Stockland's integrated development capabilities and expertise with Halladale's existing business and extensive local relationships. The acquisition represents the successful execution of Stockland's strategy to acquire a strong UK operating business in addition to property assets.

Future Strategy and Outlook

We are well positioned to deliver continued strong performance in the year ahead, leveraging the combined expertise across our diversified business to build a globally respected capability.

The strength of our balance sheet means we are capable of building on our success by capitalising on opportunities in the current market.

75 George Street, Parramatta

Waterfront Place, Brisbane, Queensland

Stockland Direct Office Trust No.1—(SDOT1)

Achievements

- Total return of 72.4% for General Investors and 131.3% for Geared Investors for the 2007 financial year.
- Net tangible assets increasing from $1.27 to $2.09 per unit over the financial year.
- Maintaining 100% occupancy of the Waterfront Place property.

Trust Statistics and Performance

(for the year ended 30 June 2007)

Fund size:	**$242.0m**
Net tangible assets ("NTA") per unit:	$2.09
Fund gearing:	39%
Cash distributions (cents per unit):	
General Investor	8.09
Geared Investor	3.75[1]
Tax deferred	100%
General Investor	
FY07 Distribution yield	8.09%
FY07 Total return	72.4%
Total return since inception	40.6% p.a.
Geared Investor[2]	
FY07 Distribution yield	9.35%
FY07 Total return	131.3%
Total return since inception	74.5% p.a

1 Cash distributions for Geared Investors is net of investment loan interest of 4.34 cents per unit.

2 For Geared Investors, this represents the cash return on the first payment of $0.40 per unit.

Key Property Statistics

Property	Waterfront Place
Independent valuation ($m)[1]	237.5
Valuation date	December 2006
Net lettable area (sqm)	59,168
Occupancy rate (%)	100
Weighted average lease term (years by income)	5.80
Major tenants	Minter Ellison Ernst & Young Phillips Fox Corrs Chambers & Westgarth

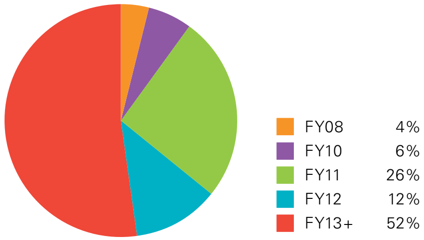
1 Represent's SDOT1's 50% interest in Waterfront Place.

Distributions for the year ended 30 June 2007 are in accordance with SDOT1 Product Disclosure Statement forecasts. Following the valuation of Waterfront Place in December 2006, SDOT1 recorded strong capital growth of 64.3% for General Investors and 121.9% for Geared Investors for the financial year ended 30 June 2007, increasing the Trust's NTA from $1.27 to $2.09 per unit.

Property Update

Waterfront Place remains 100% occupied with a weighted average lease expiry of 5.80 years (by income). Approximately 15.5% of current passing income is due to expire over the next two years, providing the opportunity for management to capitalise on the strong Brisbane office market.

The following graph shows the lease expiry profile of the property (by area, including lease terms agreed but not yet executed):



Market Update

The Brisbane CBD has experienced a prolonged period of strong economic conditions and growth in white-collar employment as a result of the resources boom. Tenant demand remains strong for office space and vacancy levels remain at record lows, with prime office vacancy at less than 1%. The strong market has resulted in an increase in effective market rentals and capital values.

While the Brisbane market is on the cusp of a new supply cycle, we expect tenant demand to remain strong over the short to medium term.

Stockland Direct Office Trust—No.2 (SDOT2)


Optus Headquarters

Achievements

- Total return of 59.5% for the 2007 financial year.
- Construction of the Optus Headquarters is complete and the lease with Optus commenced on 15 June 2007.
- The valuation of Optus Headquarters increased from $351 million to $410 million.
- As a result, net tangible assets increased from $0.40 to $1.21 over 12 months (including $0.60 increase from the final instalment).
- Total return of 33.9% p.a. since inception.

Key Property Statistics

Property	Optus Headquarters
Independent valuation ($m)[1]	200.9
Valuation date	June 2007
Net lettable area (sqm)	84,194
Occupancy rate (%)	100
Weighted average lease term (years by income)	15.0
Major tenant	Optus Administration Pty Ltd

1 Reflects SDOT2's 49% interest in Optus Headquarters.

Trust Statistics and Performance

(for the year ended 30 June 2007)

Fund size:	**$212.3m**
Net tangible assets ("NTA") per unit:	$1.21
Fund gearing:	48.63%
Cash distributions (cents per unit):	2.80
Tax deferred	100%
FY07 Distribution yield	6.99%[1]
FY07 Total return	59.5%
Total return since inception	33.9% p.a.

1 The distribution yield is based on the first final instalment of $0.40 per unit (after interest and fees on the instalment.)

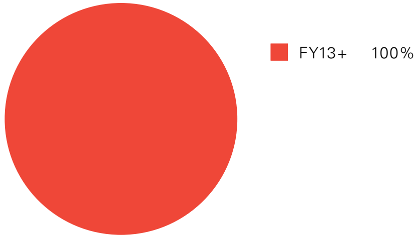
Distributions for the financial year ended 30 June 2007 are above the SDOT2 Product Disclosure Statement forecasts, representing an annualised distribution yield of 6.99%.

The Trust's main asset, a 49% interest in Optus' Headquarters, increased in value by $58 million, up 17% on the previous valuation. As a result, the net tangible asset increased from $0.40 to $1.21 per unit (including $0.60 increase from the final instalment), delivering investors a 59.5% total return for the 2007 financial year.

Property Update

Optus' new office park is the largest single tenant workplace in Australia, with the floor plates on the six buildings averaging 3,000 square metres. The project was completed in March 2007, and Optus is allowing six months for its relocation. The property is targeting a 4.5 star ABGR rating, reflecting the high level of environmental and sustainability measures in the property.

The following graph shows the lease expiry profile of the property:



Market Update

The Macquarie Park office market has experienced continued tenant demand. With the Optus lease commencement, absorption levels are the highest on record. This has resulted in vacancy rates in the precinct dropping to 3.89%, a reduction from over 11% since 2005, significantly below the Sydney North Shore vacancy of 9.9%.

Stockland Direct Office Trust No.3—(SDOT3)

181 Great Eastern Highway, Belmont

Achievements

- Significant establishment cost savings, underpinning revised forecast distributions from 7.75% to 7.95% for financial year 2008.
- Leasing success at 75 George Street, Parramatta, reducing the vacancy to 1%.

Trust Statistics and Performance

(for the period ended 30 June 2007)

Fund size:	**$140.0m**
Net tangible assets ("NTA") per unit:	$0.86
Fund gearing:	62.2%

Our current offer, SDOT3, was launched in April 2007, to raise $60 million in equity. Settlement of all five properties occurred on 27 June 2007. The first distribution from the period of allotment to 30 September 2007 will be paid to investors in October 2007.

Stockland achieved significant cost savings in establishing SDOT3. These cost savings will be passed on to investors, increasing the forecast distribution yield from 7.75% to 7.95% for financial year 2008.

Property Update

Since the Trust was launched in April 2007, Stockland has achieved leasing success at 75 George Street, Parramatta. The new five-year lease to St.George Bank reduces the property's vacancy level from 11% to 1% and has been agreed at terms consistent with the rental assumptions set out in the Product Disclosure Statement.

A café operator for the ground floor at 541 St Kilda Road, Melbourne, was also secured on terms equal to Product Disclosure Statement expectations.

As at 30 June 2007, the portfolio occupancy is 96%, with a weighted average lease expiry (by income) of 4.7 years (including lease terms agreed but not yet executed).

The following graph shows the lease expiry profile of the Trust (by area, including lease terms agreed but not yet executed):

Market Update

St Kilda Road office precinct has remained relatively stable over recent times while the performance of Melbourne CBD car parks remains somewhat correlated to the overall strength of the Melbourne CBD commercial sector. The Canberra market has experienced an expansion of government functions in the past two years. However, a significant amount of supply is forecast over the short term, which is expected to put upward pressure on vacancy rates.

The Western Australian commercial property market continues to benefit from the state's economy as it continues its growth phase, sparked by increased commodity prices and business investment. The strong growth has resulted in significant leasing activity, declining vacancy rates and higher capital values. Similarly, the Parramatta office market has also recently experienced positive net absorption, decreasing vacancy levels and improved tenant demand.

Key Property Statistics

	181 Great Eastern Highway, Belmont	40 Cameron Avenue, Belconnen	541 St Kilda Road, Melbourne	222 Russell Street, Melbourne	75 George Street, Parramatta
Independent valuation ($m)	13.0	32.8[1]	30.1	16.8	40.0
Valuation date	March 2007	March 2007	March 2007	March 2007	March 2007
Net lettable area (sqm)	4,036	15,506	8,244	479 car parking spaces	9,654
Occupancy rate (%)	100	100	100[2]	100	100[2]
Weighted average lease term (years by income)	4.2	5.7	3.6[2]	3.1	5.5[2]
Major tenants	Telstra Corporation	Commonwealth of Australia	Seek Limited	EziPark	St.George Bank
Fund weighted average lease expiry (years by income)					4.7[3]
Fund occupancy (%)					100[3]

1 Represents SDOT3's 50% interest in 40 Cameron Avenue, Belconnen.

2 Includes the rental guarantee provided by Stockland. Occupancy rate excluding the rental guarantee is 83% for 541 St Kilda Road, Melbourne and 99% for 75 George Street, Parramatta (including lease terms agreed but not yet executed).

3 Fund weighted average lease expiry and occupancy excluding the rental guarantee is 4.4 years and 96% respectively (including lease terms agreed but not yet executed).

Fremantle Shopping Centre (artists impression)

Stockland Direct Retail Trust No.1—(SDRT1)

Achievements

- Total return of 12.7% for the six month period to 30 June 2007.
- Benowa Gardens Shopping Centre and Pacific Pines Shopping Centre increased in value by $3 million and $0.8 million respectively.
- As a result, net tangible assets increased by 8.5% to $0.94 per unit.
- Leasing success at Tamworth Homespace increased the Trust's occupancy.

Trust Statistics and Performance

(for the period ended 30 June 2007)

Fund size:	**$94.0m**
Net tangible assets ("NTA") per unit:	$0.94
Fund gearing:	39.8%[1]
Cash distributions (cents per unit):	4.18
Tax deferred	100%
FY07 Distribution yield (Annualised)	7.75%
FY07 Total return	12.7%[2]

1 Gearing excludes the final payment for the Tamworth property to be made on 30 November 2007

2 For six month period, based on NTA on allotment of $0.86 per unit

Distributions for the financial year ended 30 June 2007 were in accordance with the SDRT1 Product Disclosure Statement, representing an annualised distribution yield of 7.75%.

Benowa Gardens Shopping Centre and Pacific Pines Shopping Centre were valued as at 30 June 2007, booking increases of 11.90% and 4.88% over previous valuations as a result of strong capital growth in the retail market. Consequently, net tangible asset increased from $0.87 to $0.94 per unit, delivering a 12.7% total return to investors for the period to 30 June 2007.

Fremantle Shopping Centre

Fremantle Shopping Centre is being developed under a Development Management Agreement (DMA). In May, a portion of the centre collapsed while under construction, resulting in a delay in practical completion. The DMA is a fixed price contract, requiring the developer to insure all works, protecting investors against development risk. Consequently, the expense incurred as a result of the incident is the developer's responsibility. The developer has engaged consultants to review the structure and engineering design. All reports received to date confirm the building is structurally sound and authority has been provided to allow work to commence again for most of the building. Construction of the centre is expected to resume in August 2007 with a practical completion date of February 2008.

Lease Profile

Throughout the year, Stockland has achieved leasing success at Tamworth Homespace and Benowa Gardens Shopping Centre, reducing overall Trust vacancy from 14.0% as at 31 December 2006 to 12.2% and increasing the weighted average lease expiry from 6.9 years to 7.2 years.

Key Property Statistics

	Pacific Pines Shopping Centre	Benowa Gardens Shopping Centre	Tamworth Homespace	Fremantle Shopping Centre (under construction)
Independent valuation ($m)	17.2	28.2	21.2	23.6[4]
Valuation date	June 2007	June 2007	August 2006	July 2006
Gross lettable area (sqm)	5,525	5,811	13,073	4,732
Occupancy rate (%)	100	98	96[1,2]	100[1,2]
Weighted average lease term (years by income)	9.27	4.59	5.47	10.97
Major tenants	Woolworths	Coles	Good Guys	Woolworths
Fund weighted average lease expiry (by income) (years)				7.22
Fund occupancy (%)				98.3[3]

1 A rental guarantee for the remaining vacancy is provided until 19 December 2008.

2 Includes the rental guarantee provided by Stockland. Occupancy rate excluding the rental guarantee is 91% for Tamworth Homespace and 67% for Fremantle Shopping Centre (including lease terms agreed but not yet executed).

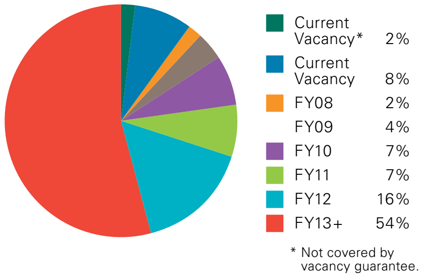
3 Fund occupancy excluding the rental guarantee is 90.2% (including lease terms agreed but not yet executed).

4 On an 'As if complete' basis.

At Tamworth Homespace, new five-year leases to a furniture store (1,303 square metres) and home showroom (359 square metres) have been agreed during the last quarter. The new terms are at rentals slightly below Product Disclosure Statement forecasts, however reduce the property's overall vacancy, providing long-term cashflow stability.

The majority of the Trust's expiry profile over the 2008 financial year is due to expiring leases at Benowa Gardens Shopping Centre. We have commenced lease negotiations with the majority of these tenants, with many exercising options to renew or entering into new leases.

The following graph shows the lease expiry profile of the Trust (by area, including lease terms agreed but not yet executed):



Market Update

Knight Frank Research reports that the retail property market is well supported by strong retail turnover and a property market continually hungry for investment. Growth in food-based retailing and neighbourhood-style shopping centres continues to remain strong, fuelling investor demand and resulting in higher capital values.

Corporate Responsibility— —and Sustainability

Corporate Responsibility and Sustainability ("CR&S") is becoming an increasingly important focus for the property sector, organisations and the community as a whole. To Stockland, corporate responsibility means doing the right thing by our stakeholders and the environment. To deliver long-term sustainable value to our stakeholders, CR&S principles are being integrated into all parts of our organisation.

Capital Partners, as part of Stockland, adheres to Stockland's CR&S policy. We consider the sustainability impact of activities and business processes, along with those of our agents, contractors and tenants and will endeavour to enhance sustainability outcomes wherever practicable. For us, sustainability means more than good environmental stewardship. We take a wider view of sustainability. Our approach embraces our responsibilities to our employees, our communities, the marketplace and the environment.

Our CR&S aim is to meet or exceed the expectations of all our stakeholders, delivering long-term value and sustainability to our business.

Achievements Across Stockland Capital Partners Portfolio:

SDOT1 – Waterfront Place

Over the past 12 months, a range of sustainability initiatives have been implemented throughout Waterfront Place to improve the environmental performance of the building and the quality of the indoor environment for building occupants. An intelligent sub-metering system has been installed throughout the building to monitor electricity and water usage on major resource-consuming plant and equipment. As a result of this project and the implementation of a range of other initiatives, electricity consumption has reduced by around 8.7%, with a reduction in greenhouse gas emissions of 6.9% and water by around 19.5%. Other major initiatives at Waterfront Place include implementation of sustainable fitout guidelines for tenancies, waste management and a recycling program to reduce recyclable waste to landfill and a range of water-efficiency initiatives.

SDOT2 – Optus Headquarters

This landmark campus-style office development incorporates a number of environmental initiatives, including a commitment to achieve a 4.5 star Australian Building Greenhouse Rating (ABGR) against an industry average of 2.5 stars. Over the next 12 to 18 months, the focus will be on electricity usage to ensure the 4.5 star ABGR is achieved. Resources have been engaged to assist with a monthly review of electricity billing data and sub-metering data to track performance to ABGR benchmarks. Monthly analysis will allow any abnormal or excessive usage to be identified and managed during the rating period to facilitate the target rating.

SDRT1 – Shopping Centres

Our shopping centres support local community-based initiatives and events, such as Tamworth Homespace supporting the Rotary Club of Tamworth's annual book sale. The sale is a recycling program that raises thousands of dollars each year for Rotary projects, most of which are local charities and community groups.

In 2006, Stockland published its first Corporate Responsibility and Sustainability Report. More information about Stockland's CR&S approach and the report can be found at www.stockland.com.au/about.

Stockland

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