

Stockland Unlisted Property Funds

31 December 2008



Stockland

Investment Report

Stockland Unlisted Property Funds

Investment Report 31 December 2008

We are pleased to present the December 2008 Half Year Investment Report for Stockland's unlisted property funds. There is no doubt that the economy has not seen such turbulent market conditions in recent years. The rapidly changing economy has affected all industries and asset classes and created instability and genuine concern amongst investors. Our funds, like others, are not immune to market conditions and have therefore seen a decline in results this half year.

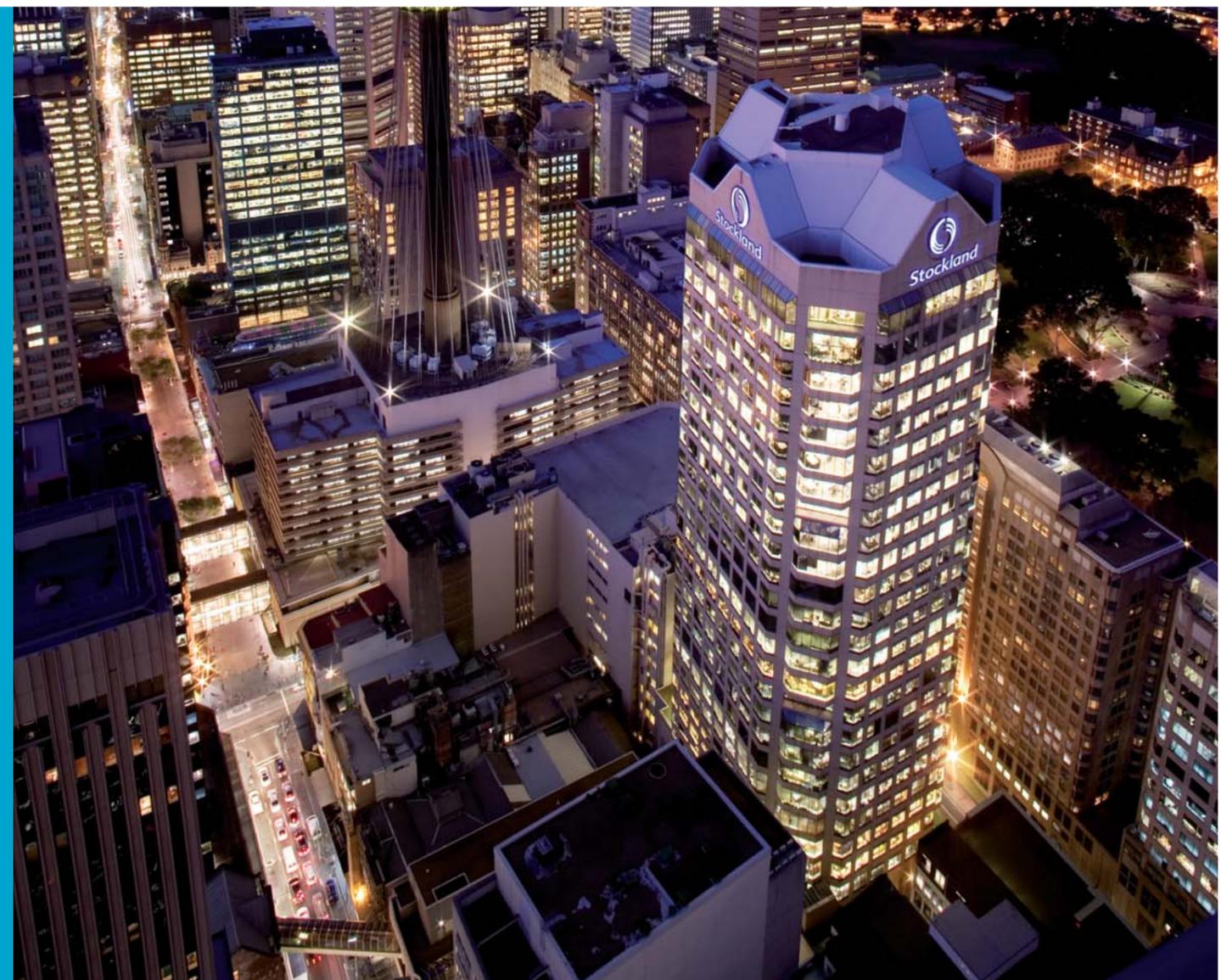
Stockland remains committed to delivering solid performance, providing clear disclosure and managing the funds in the best interest of investors. ASIC recently introduced ongoing disclosure requirements for unlisted retail funds. This information is available on the Stockland website.

Stockland

Stockland achieved an operating profit before inventory write-downs* for the half year ended 31 December 2008 of \$127.9 million, and a statutory accounting loss of \$726.0 million. We report our operating result, as it provides the most meaningful indication of the actual profit we derived from running our business. Our earnings per security was 8.5 cents and dividend and distribution was 17 cents.

Conservative balance sheet management and commitment to property fundamentals have seen us weather the storm comparably well. We are actively managing the impact of current market dynamics with a strong focus on risk management, capital management and cost efficiencies. While we continue to prudently manage the business, we are also focused on capitalising on opportunities to strengthen our business and ensure we emerge from this downturn as Australia's pre-eminent diversified property group.

*Before certain significant items



Stockland Direct Office Trust No.1 “SDOT1”

STOCKLAND DIRECT OFFICE TRUST NO. 1 (“SDOT1”)

SDOT1 Statistics and Performance as at 31 December 2008

Assets under management	\$269m
NTA per unit*	\$2.34
Debt	
Gearing	37%
Years to maturity	1.5
General Investor	
FY09 distribution yield (annualised)	8.75%
1 year total return to 31 December 2008	(7.8%)
Total return since inception per annum	31.1%
G geared Investor**	
FY09 distribution yield (annualised)	10.91%
1 year total return to 31 December 2008	(10.0%)
Total return since inception per annum	52.6%

An independent valuation for Waterfront Place has been undertaken as at 31 December 2008. The capitalisation rate increased to 6.75%, resulting in a 6.1% valuation decrease to \$267.5 million for SDOT1's 50% share of Waterfront Place.

Distributions for the half year ended 31 December 2008 were 4.375 cents per unit representing an annualised distribution yield of 8.75% for general investors and 10.91% for geared investors.

In accordance with the SDOT1 Product Disclosure Statement, on or before 31 December 2009, investors will be required to consider an investment and liquidity strategy. The strategy, recommended by Stockland, is currently in the preliminary planning phase. For geared investors, the repayment date of the Investment Loan is 30 June 2010. Stockland will consider the obligations of investors when making a recommendation on strategy.

Key Property Statistics

Property	Waterfront Place
Independent valuation	\$267.5m***
Valuation date	31 Dec 2008
Net lettable area (sqm)	59,367
Occupancy rate	100%
Weighted average lease expiry (years by income)	5.01
Major tenants	Minter Ellison Ernst & Young Phillips Fox Corrs Chambers & Westgarth BankWest Hopgood & Ganim Mallesons

*Net tangible assets per unit as calculated in accordance with Australian International Financial Reporting Standards. In prior reporting, NTA per unit has excluded the mark to market effect of the interest rate swap asset/liability.

**For geared investors, this represents the return on the \$0.40 per unit paid.

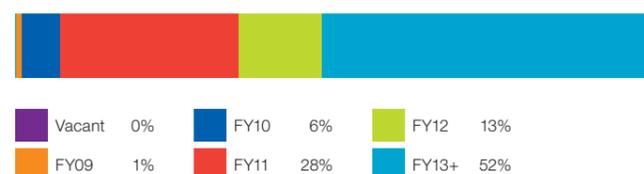
***Represents SDOT1's 50% interest in Waterfront Place.

Property Update

Waterfront Place remains 100% occupied by a variety of tenants.

Capital works programs including implementation of sustainability initiatives and base building capital expenditure continue. Installation of a new canopy is now underway, increasing safety and improving building aesthetics. The NABERS rating for Waterfront Place is now at 3.5 stars and a 4.0 stars rating is targeted for the coming year.

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



Market Update

According to Jones Lang LaSalle, the December 2008 total market vacancy rate for the Brisbane CBD rose to 3.6% in December 2008 from 1.4% in June 2008. The vacancy rate for premium grade assets rose to 1.1% in December 2008 from 0.8% in June 2008.

New completions were limited during the December 2008 half year with the increase in vacancy rates mainly attributable to an easing in tenant demand. Consequently, prime rental levels reportedly fell by 11.5% in the six months to December 2008.

Weaker economic growth forecasts and the pending completion of new supply are expected to place downward pressure on rents as vacancies rise.

Investment sales activity remains limited. It is generally considered that prime investment yields in the Brisbane CBD are now between 7.00% and 7.75% for prime grade assets.



Stockland Direct Office Trust No.2 “SDOT2”

STOCKLAND DIRECT OFFICE TRUST NO. 2 (“SDOT2”)

SDOT2 Statistics and Performance as at 31 December 2008

Assets under management	\$186m
NTA per unit*	\$0.97
Debt	
Gearing	55.6%
Years to maturity	4.5
FY09 distribution yield (annualised)	7.50%
1 year total return to 31 December 2008	(33.0%)
Total return since inception per annum	4.3%

An independent valuation for Optus Headquarters has been undertaken as at 31 December 2008. The capitalisation rate increased to 7.00%, resulting in a 7.5% valuation decrease to \$181.3 million for SDOT2's 49% share of Optus Headquarters.

Distributions for the half year ended 31 December 2008 were 3.387 cents per unit representing an annualised distribution yield of 7.5%.

Key Property Statistics

Property	Optus Headquarters
Independent valuation	\$181.3m**
Valuation date	31 Dec 2008
Net lettable area (sqm)	84,194
Occupancy rate	100%
Weighted average lease expiry (years by income)	13.46
Major tenant	Optus Administration Pty Ltd

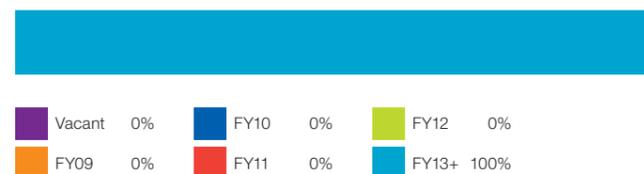
*Net tangible assets per unit as calculated in accordance with Australian International Financial Reporting Standards, adjusted to exclude the the mark to market effect of the interest rate swap asset/liability.

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

Property Update

Operationally, Optus continues to work with Stockland to analyse and collate data ahead of obtaining the base building NABERS rating target of 4.5 stars in early 2009. Minor capital works have been identified to improve building efficiency and are expected to commence in 2009.

The following graph illustrates the lease expiry profile of SDOT2 by area.



Market Update

According to Jones Lang LaSalle, the Macquarie Park market recorded robust levels of demand during the December 2008 half year. This demand was mainly attributable to pre-commitments for recently completed stock.

New completions increased existing supply during the December 2008 half year however only 65% of this supply was leased on completion, increasing vacancies as a result. The vacancy rate in Macquarie Park increased to 15.7% in December 2008 from 10.5% in June 2008. Rents were reportedly unchanged.

Weaker economic growth is expected to continue and place upward pressure on vacancies as demand conditions ease. Consequently, rents are also expected to come under increased downward pressure.

The recent spate of completions has moderated the supply pipeline with projects under construction to add 7% to stock levels over the next 18 months. Restrictive levels of development finance should limit development activity beyond what is currently under construction.

Evidence of investment sales activity remains scant with only a limited number of major transactions reported in 2008. It is generally considered that prime investment yields in Macquarie Park are now between 8.00% and 8.50%.



Stockland Direct Office Trust No.3 "SDOT3"

STOCKLAND DIRECT OFFICE TRUST NO. 3 ("SDOT3")

SDOT3 Statistics and Performance as at 31 December 2008

Assets under management	\$133m
NTA per unit*	\$0.66
Debt	
Gearing	63%
Years to maturity	1.5
FY09 distribution yield (annualised)	8.00%
1 year total return to 31 December 2008	(22.1%)
Total return since inception per annum	(16.2%)

In accordance with the revised SDOT3 Product Disclosure Statement forecasts, distributions for the half year ended December 2008 were 4.0 cents per unit, representing an annualised distribution yield of 8.0%.

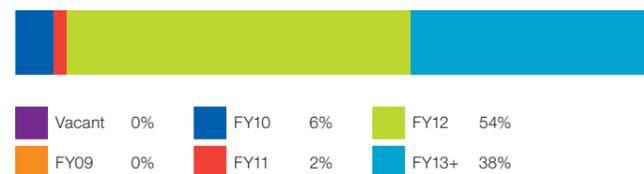
Independent valuations for all SDOT3 properties have been undertaken as at 31 December 2008. The weighted average capitalisation rate increased to 8.28%, resulting in a 4.7% decrease in valuations to \$129.0 million.

As a result of decreasing valuations, the additional capacity available in meeting particular loan covenants has been reduced. Whilst no breaches of loan covenants have occurred, management continue to monitor the short to medium term risks associated with loan covenants.

Property Update

Additional revenue is being generated from the Belconnen property through the introduction of parking metres to 166 external car bays. The St Kilda Rd property is benefiting from leasing of the 293m² ground floor tenancy, increasing SDOT3's occupancy to 100%. The Belmont, Russell Street and Parramatta properties are continuing to perform in line with forecasts.

The following graph illustrates the lease expiry profile of SDOT3 by area.



Market Update

A broad based deterioration in demand conditions occurred during the December 2008 half year. According to Jones Lang LaSalle, vacancies have risen, rental growth has slowed and investment yields have softened.

Supply increases across broader Melbourne have resulted in increased vacancies for the St Kilda Rd office market, up to 6.8% in December 2008 from 5.8% in June 2008.

Despite a 1.6% increase in supply to the secondary Canberra office market, vacancies increased by only 0.6% in the 6 months ended 31 December 2008 to 5.1%.

Tenant demand has begun to falter across the secondary Parramatta office market with a substantial increase in vacancies from 9.7% in June 2008 to 12.5% in December 2008.

Vacancies remain low in the Perth secondary office market at 1.7% in December 2008. Rental increases of 7.7% were experienced in this market between June 2008 and December 2008.

Investment yields have generally softened across all of SDOT3's markets during the six months ended December 2008.

Key Property Statistics

	181 Great Eastern Highway, Belmont	40 Cameron Ave, Belconnen	541 St Kilda Road, Melbourne	222 Russell Street, Melbourne	75 George Street, Parramatta
Independent valuation	\$18.0m	\$31.65m**	\$28.75m	\$15.6m	\$35.0m
Valuation date	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008
Net lettable area (sqm)	4,036	15,506	8,251	479 car park spaces	9,545
Occupancy rate	100%	100%	100%	100%	100%
Weighted average lease expiry (years by income)	2.67	3.15	3.41	1.59	4.11
Major tenant	Telstra Corporation	Commonwealth of Australia	Seek Limited	EziPark	St. George Bank

SDOT3 occupancy 100%
SDOT3 weighted average lease expiry (years by income) 3.23

*Net tangible assets per unit as calculated in accordance with Australian International Financial Reporting Standards. In prior reporting, NTA per unit has excluded the mark to market effect of the interest rate swap asset/liability.

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



Stockland Direct Retail Trust No.1 "SDRT1"

STOCKLAND DIRECT RETAIL TRUST NO. 1 ("SDRT1")

SDRT1 Statistics and Performance as at 31 December 2008

Assets under management	\$89m
NTA per unit*	\$0.68
Debt	
Gearing	63%
Years to maturity	1
FY09 distribution yield (annualised)	7.85%
1 Year total return to 31 Dec 08	(24.5%)
Total return since inception per annum	(9.6%)

Distributions for the half year ended December 2008 were 3.925 cents per unit, representing an annualised distribution yield of 7.85%.

Independent valuations for all SDRT1 properties have been undertaken as at 31 December 2008. The weighted average capitalisation rate increased to 7.74%, resulting in a 7.2% decrease in valuations to \$85.3 million.

As a result of decreasing valuations, the additional capacity available in meeting particular loan covenants has been reduced. Whilst no breaches of loan covenants have occurred, management continue to monitor the short to medium term risks associated with loan covenants.

The SDRT1 loan facility is due to expire in December 2009 with an option to renew subject to the financier's approval. Management have commenced negotiations with the financier regarding the facility renewal.

Property Update

Negotiations for eight leases were completed for Benowa Gardens Shopping Centre during the half year ended December 2008. All were above forecasts. Coles' moving annual turnover and pedestrian traffic have increased substantially at 14.2% and 5.6% respectively.

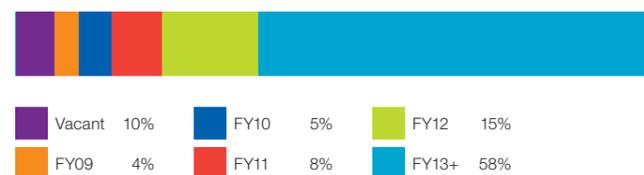
Negotiations for four leases were completed for Pacific Pines Shopping Centre during the half year ended December 2008. All were in line with forecasts. Moving annual turnover has increased by approximately 8.7%, attributed to the completion of residential land and home sales in the area.

Beach House Health & Fitness, a tenant at Tamworth Homespace, entered into voluntary administration in November 2008. Finding a new tenant for this space is a key priority for Stockland's leasing professionals.

Everything Equine, an existing tenant at Tamworth Homespace, has relocated to a larger tenancy within the centre in order to leverage further off the new Tamworth Equine Centre across the road from Tamworth Homespace.

Occupancy excluding rental guarantee at Fremantle Shopping Centre has increased from 69% to 86% due to additional tenants Fremantle Cellars, Healthkicks, Access Housing and an ANZ ATM. The Centre remains in a stabilisation stage as tenants complete their shop fitouts and build local awareness. Leasing activity has been slower than anticipated however continues to be mitigated by the rental guarantee which expires in June 2009.

The following graph illustrates the lease expiry profile of SDRT1 by area.



Market Update

Retail turnover remains weak across most markets. Growth in retail turnover declined in both Queensland and Western Australia between June 2008 and December 2008.

Moderate increases in retail vacancies were recorded in most metropolitan markets during the 6 months ended December 2008. Vacancies across Perth increased from 4.1% in June 2008 to 5.1% in December 2008. Supported by population growth, South East Queensland was more resilient with vacancies decreasing from 3.5% in June 2008 to 3.1% in December 2008.

Investment yields have generally softened across all of SDRT1's markets during the six months ended December 2008.

Key Property Statistics

	Pacific Pines Shopping Centre	Benowa Gardens Shopping Centre	Tamworth Homespace	Fremantle Shopping Centre
Independent valuation	\$19.0m	\$29.7m	\$17.0m	\$19.6m
Valuation date	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008
Net lettable area (sqm)	5,520	5,739	13,073	4,776
Occupancy rate	100%	97%	79%	100%**
Weighted average lease expiry (years by income)	8.20	4.62	3.78	10.36**
Major tenant	Woolworths	Coles	Good Guys	Woolworths

SDRT1 occupancy 90%***
SDRT1 weighted average lease expiry (years by income) 6.59***

*Net tangible assets per unit as calculated in accordance with Australian International Financial Reporting Standards. In prior reporting, NTA per unit has excluded the mark to market effect of the interest rate swap asset/liability.

** A rental guarantee applies until 15 June 2009. Excluding this guarantee occupancy is 86% and weighted average lease expiry is 12.47 years.

*** A rental guarantee applies on the Fremantle property until 15 June 2009. Excluding this guarantee occupancy is 88% and weighted average lease expiry is 6.86 years.



Stockland Residential Estates Equity Fund No.1 “SREEF”

STOCKLAND RESIDENTIAL ESTATES EQUITY FUND NO. 1 (“SREEF”)

Fund Summary

SREEF1 was established in August 2006, offering wholesale investors the opportunity to invest alongside Stockland in a portfolio of residential community projects. Following the acquisition of six projects over a two-year period, SREEF1 fully committed \$75 million of unitholder equity by July 2008. SREEF1 is now a geographically diverse residential development fund with projects under construction in four States across Australia.

As at 31 December 2008, the Fund has \$145 million of Funds Under Management.

Project Summaries

Vertu Private Estate is a 54 hectare property located in the City of Armadale, 17 kilometres south from the Perth Central Business District. Vertu consists of five stages yielding 558 lots in total. The fund has a 50% interest in Stages 2 to 5 (411 lots). Approximately 153 lots from Stages 2 and 3 have been released to the market.

The Boardwalk is a 31 hectare property located at Mount Cooloom on the Sunshine Coast, 15 kilometres north of Maroochydore. The project offers premium beachside community living, with spectacular views of Mount Cooloom and the Pacific Ocean. The Boardwalk consists of nine stages, yielding 268 lots in total. The Fund holds a 50% interest in Stages 4, 6, 7 and 9, consisting of 130 lots. Only lots within stages 6 and 7 remain unsold.

Hundred Hills is an approved 316 lot subdivision (including one retail lot) located at Murwillumbah, NSW in the hinterland of Tweed Shire. The project is approved for residential development with lots released to market in November 2008. The Fund holds a 50% interest in the project.

Newbury Village is a 46 hectare property located in Craigieburn, VIC, 27 kilometres north of the Melbourne CBD and situated within one of Melbourne's key growth corridors. The fund owns a 50% interest in the project (648 lots). Sales commenced in August 2008, with in excess of 100 lots already sold.

Freshwater Estate is a 76 hectare property located in Griffin, QLD, approximately 24 kilometres north of the Brisbane CBD. The Fund owns an 80% interest in the project, which is expected to yield 797 lots (over 20 stages) within 6 years. Construction of stages 1 and 2 was completed in December 2008, with construction now commenced on stages 3 and 4.

Ormeau is a 120 hectare property located in Ormeau, QLD, approximately 33 kilometres north of Surfers Paradise. The Fund purchased a 50% interest in the project alongside Stockland in the open market, with the site expected to yield in excess of 800 lots when fully developed. Construction will commence once final planning approvals have been received. First sales are expected to commence in mid 2010.

Key Projects

	Vertu Private Estate (Stages 2-5)	The Boardwalk (Stages 4, 6, 7 & 9)	Hundred Hills	Newbury Village	Freshwater Estate	Ormeau
Location	Perth, WA	Mount Cooloom, QLD	Murwillumbah, NSW	Craigieburn, VIC	Griffin, QLD	Ormeau, QLD
Date acquired	November 2006	September 2007	November 2007	June 2008	June 2008	July 2008
Fund interest	50%	50%	50%	50%	80%	50%



Stockland remains strongly committed to being an ethical, responsible organisation. Despite challenging economic conditions, we have not changed our view that sound corporate responsibility and sustainability policies are fundamental to our business. Doing the right thing as a property owner, manager, developer and fund manager through the eyes of our stakeholders, is about dealing with risk, seeing opportunities and creating long-term value for our investors.

SDOT1

Waterfront Place is continuing its environmental improvement with 27.4% energy savings and 47.5% water savings (July to October 2008 compared to the same period in 2004).

SDOT2

Optus has ongoing energy monitoring and has achieved water savings of over 18,000kl through the utilisation of the rainwater tank in a 9 month period in 2008. Optus continues to work alongside Stockland to achieve a targeted 4.5 star NABERS rating during the next 6 month period.

SDOT3

Two SDOT3 properties have had energy and water metering installed.

SDRT1

The retail properties are starting to see the benefits of extensive Smart Monitoring of energy and water. Pacific Pines and Benowa Gardens Shopping Centres are achieving water savings from installation of waterless urinals.



Corporate Responsibility & Sustainability (CR&S)

UN PRINCIPLES OF RESPONSIBLE INVESTMENT – PROGRESS UPDATE

Stockland remains committed to the implementation of the UN Principles of Responsible Investment (PRI).

Principles	This past year we have:
1. We will incorporate environmental, social, and corporate governance (ESG) issues into investment analysis and decision making processes	Referenced our Environmental Social and Governance (ESG) practices in investment policy reports.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices	Applied the NABERS Energy and Water Rating tool to understand the performance of some of our office assets held by funds.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest	Commenced NABERS Energy disclosures in management reports.
4. We will promote acceptance and implementation of the principles within the investment industry	Committed to including assets held by funds in our Energy Efficiency Opportunity assessment program.
5. We will work together to enhance our effectiveness in implementing the principles	Referenced our implementation of the Principles in this report, the Stockland Corporate Responsibility and Sustainability (CR&S) Report and in our Carbon Disclosure Project submission.
6. We will each report on our activities and progress towards implementing the principles	Promoted ESG activities particularly as relevant to property and funds management, including supporting and promoting sustainability tools such as NABERS and the Green Star suite of tools. Disclosed our NABERS ratings for our office assets, including those held by funds, in our CR&S Report. Included the performance of our assets, held by funds, in our energy and water reporting by building type/asset class. Committed to reporting on our progress in future CR&S and Investment Reports.

Stockland has released its third Corporate Responsibility and Sustainability Report. To download this report or to obtain further information please visit www.stocklandsustainability.com.au



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