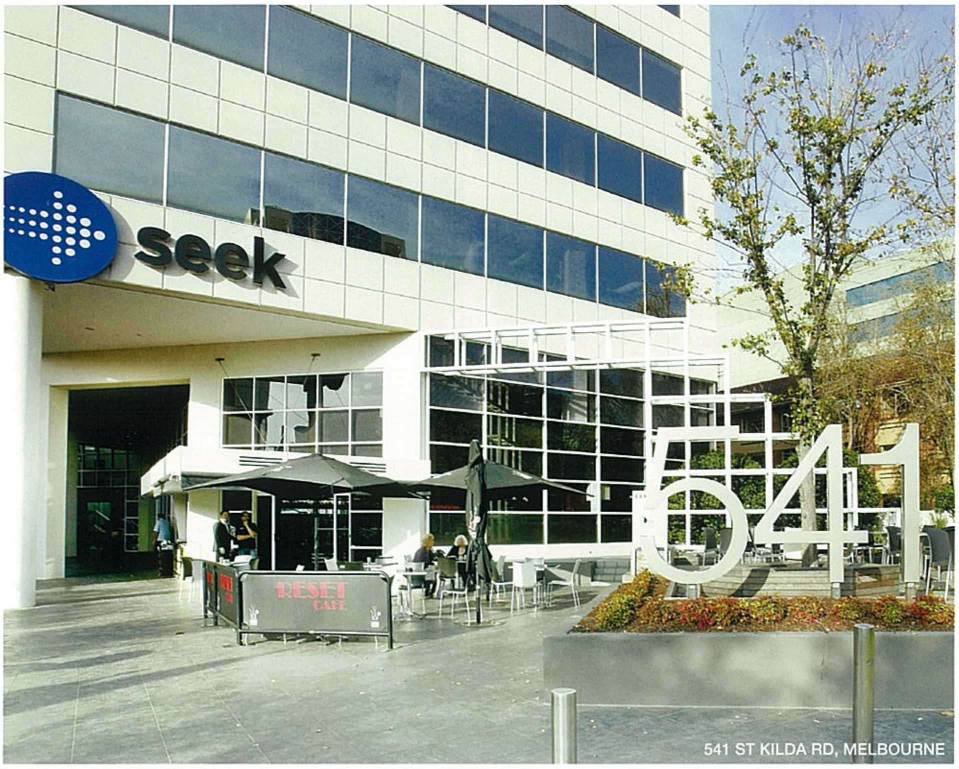

541 ST KILDA RD, MELBOURNE

Highlights

We are pleased to provide investors with the investment report for Stockland Direct Office Trust No. 3 (SDOT3) for the six months to 31 December 2010. The highlights for the period include:

- The unit price increased $0.02 to $0.50.
- A new eight year lease was signed with NRW Holdings Ltd for the Belmont, WA asset.
- SDOT3 continues to maintain its cash reserves to fund future capital expenditure and leasing incentives.
- Stockland extended its loan facility offer until 31 August 2012.

Stockland

Stockland Direct Office Trust No. 3 & Stockland Holding Trust No. 2 (SDOT3)

Key results

Assets under management
as at 31 December 2010

Assets under management	$88.0 million

UNIT PRICE*

$0.50

SDOT3's unit price was $0.50 as at 31 December 2010, up from $0.48 as at 30 June 2010. All of the SDOT3 properties were externally valued at 31 December 2010, with the total value of the portfolio decreasing by $0.9 million to a total value of $83.1 million. The decrease in the valuations was more than offset by the $0.9 million increase in the value of the interest rate swap and the increased level of cash retained by SDOT3 to fund future capital expenditure.

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

Distributions and returns
to 31 December 2010

1H11 distribution return	0.00%
1H11 total return	4.00%
Total return since inception per annum	(12.90%)

YTD DISTRIBUTIONS

0.00c per unit

SDOT3 did not pay any distributions during the six months to 31 December 2010. Three of the four assets within SDOT3 require future capital expenditure and, with two major impending lease expiries, SDOT3 will also be required to fund leasing incentives. SDOT3 was required to suspend distributions in order to ensure that these requirements can be met from retained cash. SDOT3's current loan to valuation ratio, while below the maximum level of 65%, is high enough to prevent the loan facility from being utilised to finance the forecast capital expenditure and leasing incentives.

SDOT3's ability to pay future distributions will be reassessed once it has completed the capital expenditure program on its assets.

Debt
as at 31 December 2010

Loan facility	$60.8 million
Drawings	$55.2 million
Interest rate	8.25%
Years to maturity	1.5

LOAN TO VALUATION RATIO

64.81%

There were no drawings on the loan facility for the six months to 31 December 2010. SDOT3 funded all capital expenditure and leasing incentives from cash reserves. It is anticipated that SDOT3 will continue to fund these items by utilising retained cash rather than by drawing on the loan facility. The loan to valuation ratio remained static at 64.81% and is below the 65% maximum allowed by the financier.

Stockland has extended the term of its loan facility offer. The facility is capable of acceptance by SDOT3 until 31 August 2012 and would be on the terms and conditions available to SDOT3 in the market at the time of acceptance of the offer. SDOT3 would access this facility if the current loan facility were required to be repaid or was not renewed.

As a consequence of this loan facility offer, SDOT3's financier has waived any future breach of the loan to valuation ratio provided the loan to valuation ratio does not exceed 80%.

The current loan facility is due to expire on 27 June 2012. SDOT3's current interest rate of 8.25%, including the line and margin fees, has not changed from 30 June 2010 due to the interest rate swap in place. The interest rate swap will remain in place until its expiry on 27 June 2014.

Property overview

Key property statistics as at 31 December 2010

Property	181 Great Eastern Hwy, Belmont	541 St Kilda Rd, Melbourne	222 Russell St, Melbourne	75 George St, Parramatta
Independent valuation	$15.1 million	$25.0 million	$13.0 million	$30.0 million
Valuation date	31 Dec 2010	31 Dec 2010	31 Dec 2010	31 Dec 2010
Net lettable area (sqm)	4,035	8,251	479 car parking spaces	9,535
Occupancy rate	100%	100%	100%	95%
Weighted average lease expiry (years by income)	8.11	1.94	4.19	2.32
Major tenants	Telstra*	Seek	Wilson Parking	St George
SDOT3 occupancy rate				98%
SDOT3 weighted average lease expiry (years by income)				3.56

* NRW Holdings Ltd from 1 February 2011.

Property update

The SDOT3 portfolio had an occupancy rate of 98% at 31 December 2010, with the only vacancy being at 75 George Street, Parramatta.

SDOT3 was successful in securing a new tenant, NRW Holdings Ltd, for the whole of 181 Great Eastern Highway, Belmont. This was a positive outcome as Telstra had previously vacated the building ahead of its 31 August 2011 lease expiry. The new lease will commence on 1 February 2011 for a term of eight years. SDOT3 will be required to undertake some capital expenditure works on the property under the new lease agreement.

The staged upgrade of the air conditioning system continued at 541 St Kilda Road Melbourne over the six months to 31 December 2010. While the lease to the building's major tenant, Seek Ltd, does not expire until October 2012, a capital expenditure program and tenancy refurbishment are anticipated to commence that year in order to maximise retention or re-leasing opportunities for the building.

The car park at 222 Russell Street, Melbourne continues to perform as forecast.

At 75 George Street, Parramatta, SDOT3 has commenced a staged capital works program over a three year period to upgrade the air conditioning system and the building lifts. The building currently has a 458 sqm vacancy due to the downsizing of a renewing tenant. The Stockland leasing team continues to remain focused on reletting the vacant space and managing ongoing lease expiries.

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

SDOT3 lease expiry profile by area

RESPONSIBLE ENTITY
Stockland Capital Partners Limited
ABN 86 078 081 722
AFSL 241188
Phone 61 2 9035 3208
www.stockland.com.au/UnlistedPropertyFunds

UNIT REGISTRY
Computershare Investor Services Pty Limited
Phone 1300 855 080
www.computershare.com

Stockland Direct Office Trust No. 3
ARSN 124 439 925
Stockland Holding Trust No. 2
ARSN 132 129 134

Market update*

The **Perth** CBD market continued to perform well during the second half of 2010. Two new buildings were completed during the period adding 23,393 sqm of new space to the market, while tenant demand remained strong with 40,846 sqm of net absorption. In the secondary asset market, the total net absorption was 11,759 sqm. This had a positive effect on the market vacancy rate for secondary assets which fell from 10.51% at 30 June 2010 to 8.93% as at 31 December 2010. The average gross effective rent for secondary assets increased 3.0% over the period to $447/sqm. The investment sales market remained subdued over the period with only one transaction occurring. This prompted yields to remain stable, with secondary investment yields still in the 8.50% to 9.75% range.

The **St Kilda Road** market remained static over the last six months. No new supply entered the market and there are currently no plans for new construction. Net absorption for the market was –1,393 sqm, primarily as a result of tenants downsizing or relocating to the CBD. This resulted in a further increase in the vacancy rate, which was 12.15% at 31 December 2010. Secondary market gross effective rents across all Melbourne Fringe markets increased by 5.5% over the period to $264/sqm, while yields remained steady, ranging between 8.25% and 10.50%.

The **Parramatta** market showed signs of moderate improvement over the period. Tenant demand picked up with net absorption among secondary assets at 10,657 sqm. As a result, the secondary vacancy rate continued to decline and was 11.03% by the end of the year, a drop of 231 basis points. Rental growth in secondary assets was nominal, increasing by 1.2% over the period, while yields remained static in the 8.75% to 10.50% range. There are a number of new development projects forecast for 2013, however pre-commitments are being sought prior to the commencement of construction. If all five projects were to proceed, this would result in 110,430 sqm of space being added to the market.

* Sourced from the Q4 2010 Perth CBD, Melbourne Fringe & Parramatta Office Market Reports by Jones Lang LaSalle.