



Stockland

Stockland Direct Office Trust No.3 (SDOT3 or Trust)



We are pleased to report all leasing risk in the portfolio has been mitigated. Our capital expenditure program enhanced the value of the properties and active management aided in the successful retention of a key tenant. Independent valuations were undertaken on all properties resulting in an uplift in the value of the portfolio.

541 St Kilda Road comprises six levels of office accommodation and two ground floor retail tenancies, with a lettable area of 8,251sqm and 128 parking spaces. The property features large floor plates of 1,300sqm with natural light on all sides and a refurbished foyer and forecourt.

31 December 2011

Highlights

- Unit price increased by 9% to \$0.60 cents per unit.
- The valuation of the portfolio increased by 5.5% to \$93.0 million.
- The portfolio remained 100% occupied.
- The major tenant Seek, at 541 St Kilda Road, Melbourne, exercised its option to remain in the building for an additional five years beyond its current lease expiry.
- Investors will have the opportunity to vote on the strategy of the fund based on the recommendation of the Responsible Entity.

Trust performance

The Trust provided investors with a total return of 8.86% for the period ending 31 December 2011. This increase was underpinned by an increase in the portfolio value. No distribution was paid over the period due to the Trust's requirement to maintain cash reserves to continue capital expenditure requirements.

Portfolio update

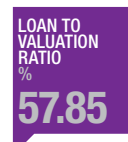
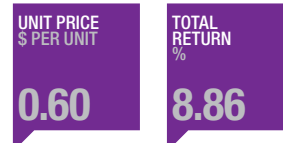
Retention of all major tenants within the portfolio have now been completed and the major risks have been mitigated. Over the last 12 months, approximately \$4.8 million has been spent on tenant incentives and capital works. The WALE of the portfolio (by income) has increased to 5.09 years.

At 181 Great Eastern Highway, Belmont, capital works are near completion for NRW Holdings Limited. Signage has been completed and NRW has progressively relocated into the building. All bathrooms and air conditioning have been

refurbished, and the lift upgrade is expected to be completed by May 2012. With the completed works to date and a promising Perth office outlook, the property value increased from \$17 million in June 2011 to \$19 million as at 31 December 2011.

St. George Bank exercised its five year option at 75 George Street, Parramatta. The upgrade to air conditioning has been completed and the lift upgrades remain on track to be finished by May 2012. Due to improved market fundamentals within Parramatta, the valuation increased from \$32.6 million in June 2011 to \$33.5 million at 31 December 2011.

Seek has exercised its five year option at 541 St Kilda Road in Melbourne, with the new lease expiring in October 2017. A staged upgrade of the air conditioning system continues and an upgrade of the lifts is expected to commence in early 2012. Following the Seek renewal, the property value increased from \$25 million in June 2011 to \$26.5 million at 31 December 2011.



TRUST PERFORMANCE*			
PERFORMANCE	6 MTH %	12 MTH %	INCEPTION % P.A.
Income return	0.00	0.00	4.96
Capital return	8.86	21.11	-10.64
Total return	8.86	21.11	-5.68

* Calculated in accordance with IFSA Standard No. 6.

DEBT*	\$M
LOAN FACILITY	\$60.81
DRAWINGS	\$55.15
INTEREST RATE**	8.40%
YEARS TO MATURITY	2.5

* Refinanced in January 2012.
** Weighted average.

Debt update

The SDOT3 \$60.8 million loan facility has been extended for an additional 2 years, maturing in June 2014. There were no additional drawings on the loan facility during the period with retained cash reserves being used to fund capital expenditure and leasing incentive requirements.

The Trust has an interest rate swap in place until 27 June 2014 with Stockland. The current weighted average interest rate, as at 31 December 2011, is 8.40%.

The Trust loan to valuation ratio (LVR) improved as a result of the increase in the value of the property portfolio. At 31 December 2011, the LVR was 57.85%, well below the 65% maximum allowed by the Trust's financier.

Fund Strategy

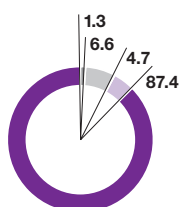
The Responsible Entity (RE) of the Trust, in accordance with Section 5.2 of the SDOT3 Product Disclosure Statement (PDS), is required to provide a recommendation concerning the future strategy of the Trust on or before 30 June 2014.

The RE believes that given the current WALE and completion of capital expenditure programs for the assets, it is in the best interest of investors to commence the sale of all of the properties and wind up the Trust before June 2014.

The proposed strategy will allow an orderly marketing and sale campaign over a period of time for the properties to achieve the best possible outcome for investors.

Investors were sent a letter dated 1 February 2012 outlining the proposed strategy. Additional information is available on the Trust web site www.stockland.com.au/investor-centre.htm or by phoning 1300 558 249 if you are calling from within Australia or +61 2 8280 7144 if you are calling from outside Australia.

EXPIRY PROFILE DECEMBER 2011 BY AREA %



■ VACANT	0.0
■ FY12	1.3
■ FY13	6.6
■ FY14	4.7
■ FY15	0.0
■ FY16+	87.4

OCCUPANCY LEVEL %
100

PROPERTY VALUE \$M
93

Economic update as at 31 December 2011

A prolonged global economic downturn and the continuing European financial crisis has resulted in instability for Australian business conditions. Difficult trading conditions in the second half of 2011 saw inflationary pressure ease and GDP projections fall by 150 basis points by December. ABS numbers also showed that unemployment levels rose over the period to 5.3%, and as a result, the RBA cut the cash rate 50 basis points in late 2011, a turnaround from the first half of the year.

Forecasts for Australia are more positive, with the RBA projecting GDP growth to reach 3.25% in 2012. Australia's driving force behind GDP growth is expected to be the strong demand and high prices for commodities. This is dependant on the performance of Asian economies throughout 2012.

Source: ABS and RBA.

MAJOR TENANTS BY INCOME	%
ST GEORGE BANK	27
SEEK LIMITED	23
NRW HOLDINGS	18
WILSON PARKING	12
HANSON	6

KEY PROPERTY STATISTICS AS AT DECEMBER 2011

PROPERTY NAME	75 GEORGE STREET, PARRAMATTA	541 ST KILDA ROAD, MELBOURNE	181 GREAT EASTERN HIGHWAY, BELMONT	222 RUSSELL STREET CAR PARK, MELBOURNE	TOTAL
Independent valuation	31 Dec 2011	31 Dec 2011	31 Dec 2011	31 Dec 2011	
Valuation	\$33,500,000	\$26,500,000	\$19,000,000	\$14,000,000	\$93,000,000
Val rate per sqm	\$3,513	\$3,212	\$4,707	n/a	
Interest	100%	100%	100%	100%	
Cap rate	9.00%	8.75%	8.50%	8.50%	8.75%
WALE*	4.88	4.80	7.09	3.55	5.09
Major tenant	St.George	Seek	NRW Holdings	Wilson Parking	
NLA	6,486	6,398	4,036	n/a	
Lease expiry	Dec 2017	Oct 2017	Jan 2019	Jun 2015	
Occupancy	100%	100%	100%	100%	100%

* By income.

Market update

Perth landlords continue to enjoy favourable leasing conditions due to strong demand. In Perth CBD, there is now less than 13,000sqm of prime grade space available for lease and 84% of all space currently under construction (88,500sqm) is already pre-committed. As a result, gross effective rents have grown 24% since September 2010. Falling incentives contributed just over half of the growth, standing around 10% compared to 18% in September 2010. Investor confidence, however, remains weak despite stronger leasing conditions. This is reflected in yields continuing to remain above their long term average, unchanged in 2011 at 7.50% to 8.50% for prime grade assets.

The St Kilda Road office market remained mostly unchanged over the second half of the year. Gross effective rents increased only 2.6% over the 12 months to December 2011. St Kilda Road vacancy decreased slightly over 2011, now 10.6%. Without any new supply forecast for St Kilda Road vacancy is expected to continue to improve, albeit slowly. Investment yields held steady over the year ranging 7.75% to 10.50%.

The Melbourne CBD Car Park market has been a key attraction for investors recently. A number of transactions have occurred over the last six months which underpin the strength being shown for this niche market. Two notable sales above vendor expectations occurred at 300 Flinders Street for \$28.2 million and 224-250 LaTrobe Street for \$29.2 million. Council restrictions on street parking have been assisting car park operators.

The Parramatta office market vacancy rate, currently 8.2%, remained relatively stable over 2011, with no new supply recorded over the year. A lack of new supply and only 26,000sqm currently under construction is benefiting the market. Prime gross effective rents rose 5.6% over the year. No change in prime investment yields during 2011, ranging between 7.75% to 8.75%

Source: Jones Lang Lasalle.

Unit Registry

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Stockland Holding Trust No.2
ARSN 132 129 134

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