



Stockland

# Stockland Direct Retail Trust No.1 (SDRT1 or Trust)



While difficult market conditions have significantly impacted the performance of your Trust over recent years, we are pleased to report on the performance of the portfolio for the six months to 30 June 2011. We remain focused on leasing vacant space and managing renewals with existing tenants.

Benowa Gardens is a fully enclosed neighbourhood shopping centre located on the Gold Coast. The centre was originally constructed in 1992, and has been periodically refurbished, with the most recent refurbishment completed in 1998. The centre is anchored with a Coles supermarket and over 40 specialty retailers. There is on-site parking for 437 vehicles, including 200 covered bays.

## Highlights

- Unit price decreased by 2% to \$0.61 cents per unit.
- Investors received a distribution of 2.02 cents per unit for the six months to 30 June 2011.
- Occupancy level remains steady with the portfolio now 92% occupied.
- The value of the portfolio increased to \$63.8 million as at 30 June 2011.
- Management continue to focus on re-leasing of vacant shops at Benowa Gardens Shopping Centre and Tamworth Homespace.
- We are now considering the future of the Trust to achieve the best outcome for investors.

## Trust performance

The Trust provided investors with a total return of 1.26% for the period. A distribution of 2.02 cents per unit was paid, providing an income return of 3.23%. This was partially offset by a negative capital return of 1.97% underpinned by losses due to capital expenditure not recouped on the valuation of the assets and mark-to-market of the Trust's fixed interest rate swap.

## Portfolio update

Capital works to convert the Stockland sales office to retail space are almost complete at Stockland Pacific Pines. Over three quarters of the pad site space is already leased to a gym, with the remaining 100 sqm being the only vacancy at the centre. Discussions are well advanced with a prospective tenant to lease the space. The centre continues to trade well, with sales growth up 5.3% for the 12 months to 30 June 2011. The value of the property increased to \$19.5 million as at 30 June 2011.

Benowa Gardens Shopping Centre continues to trade well, with sales growth up 6.8% for the 12 months to 30 June 2011. The occupancy

rate decreased slightly to 91% due to the expiry of two medical suites located on the basement level of the centre. Releasing the vacant space remains a key priority of the management team. The growth in rental income resulted in the value of the property increasing to \$30.7 million as at 30 June 2011.

Management is focused on renewing impending lease expiries at Tamworth Homespace. During the period, Pet Goods Direct renewed its lease over 1,004 sqm for a period of seven years. The value of the property decreased to \$13.6 million as at 30 June 2011 due to the tough conditions in the Tamworth retail market. Market rents on a number of the shops decreased and the vacancies in the centre increased to 10% as a result of Everything Equine going into liquidation and vacating their premises.

The properties, particularly Tamworth Homespace, are well positioned such that divestment opportunities may now be considered.

UNIT PRICE  
\$ PER UNIT

0.61

TOTAL  
RETURN  
%

1.26

LOAN TO  
VALUATION  
RATIO  
%

61.7

### TRUST PERFORMANCE\*

PERFORMANCE	6 MTH %	12 MTH %	INCEPTION % P.A.
Income return	3.23	6.59	6.78
Capital return	-1.97	-1.29	-10.24
Total return	1.26	5.30	-3.46

\* Calculated in accordance with IFSA Standard No. 6.

### DEBT\*

	\$M
LOAN FACILITY	\$40.00
DRAWINGS	\$39.35
INTEREST RATE	6.45%
YEARS TO MATURITY	0.5

\* As at 30 June 2011.

## Debt update

SDRT1's \$40.0 million facility expires on 31 December 2011 and management has been in discussions with the Trust's financier, National Australia Bank, regarding the extension of the facility. There were no additional drawings on the loan facility during the period with retained cash reserves being utilised to fund capital expenditure and leasing incentive requirements.

The Trust has a fixed interest rate swap in place until 22 December 2013. The current interest rate, including the line and margin fee, is 6.45%.

The Trust's loan to valuation ratio (LVR) improved as a result of the increase in the value of the property portfolio. At 30 June 2011, the LVR was 61.7%, below the 65% maximum allowed by the Trust's financier.

The loan facility offer from Stockland remains in place and expires on 31 August 2012.

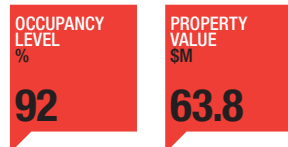
## Economic update

Economic conditions remained challenging over the period. A combination of concerns over the European financial crisis, ongoing impact of interest rates and uncertainty about the introduction of a price on carbon are undermining the confidence of consumers.

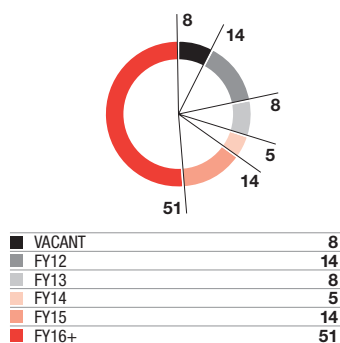
Interest rates remained on hold throughout the period, though the RBA has indicated that inflationary pressures may lead to future increases. Unemployment remained at 4.9%.

**Average vacancy rates at neighbourhood centres crept up slightly over the period to 4.8% but are still below the long term average, 5.2%.**

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EXPIRY PROFILE JUNE 2011 BY AREA %



MAJOR TENANTS BY GROSS INCOME	%
WOOLWORTHS	11
6 COLES	
5 THE GOOD GUYS	
4 SLEEP CITY & EVERYDAY LIVING	
3 BENOWA GARDENS PHARMACY	

KEY PROPERTY STATISTICS AS AT JUNE 2011

PROPERTY NAME	BENOWA GARDENS SHOPPING CENTRE	PACIFIC PINES TOWN CENTRE	TAMWORTH HOMESPACE	TOTAL/WEIGHTED AVERAGE
Independent valuation	Jun 2011	Jun 2011	Jun 2011	
Valuation	\$30,700,000	\$19,500,000	\$13,600,000	\$63,800,000
Val rate per sqm	\$5,356	\$3,534	\$1,041	
Cap rate	8.00%	7.50%	10.50%	8.4%
WALE	5.1	9.4	2.9	5.9
Major tenant	Coles	Woolworths	The Good Guys	
GLA (m <sup>2</sup> )	1,960	3,541	2,404	
Lease expiry	Apr 2022	Oct 2023	Oct 2014	
Occupancy	91%	98%	90%	



## Market update

Average vacancy rates at neighbourhood centres crept up slightly over the period to 4.8% but are still below the long-term average, 5.2%. Neighbourhood net rents remained relatively stable over the financial year with 0.7% in nominal growth across Australia.

Construction activity is picking up, with supply over the next three years expected to be above average. Nearly 280,000 sqm of space is due to complete between 2011 and 2013. Sydney and Brisbane account for the lion's share of construction, delivering in equal shares 170,000 sqm of supply over the next three years.

Neighbourhood investment activity is also picking up, with \$755.1 million sold in the last 12 months, 22.5% more than the same time last year. Improved optimism is reflected in yields.

The average midpoint for neighbourhood centres has fallen 20 basis points over the financial year and yields now range between 7.00% and 10.00%.

Bulky Goods net rents have had no significant growth over the last two years. Tougher leasing conditions are being reflected in slowing enquiries and increasing vacancy rates. On the contrary, the bulky goods supply pipeline is very strong. Bunnings Warehouse continues to expand in a number of locations, and Woolworths are close to rolling out their new hardware concept. In addition, Costco recently opened in Melbourne, Canberra and Sydney. The investment market for Bulky Goods (metropolitan) is expected to improve. Yields have compressed 5 basis points in the last six months though continue to range between 8.00% and 10.50%.

Source: Jones Lang LaSalle and CBRE.

## Unit Registry

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Stockland Direct Retail Trust No.1  
ARN 12 1832 086

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