



Stockland

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



Benowa Gardens is a neighbourhood shopping centre located on the Gold Coast. The centre, originally constructed in 1992, is anchored with a Coles supermarket and over 35 specialty retailers. There is on-site parking for 437 vehicles, including 200 covered bays.

30 June 2016

NTA AT 30 JUNE 2016 CENTS PER UNIT
103.4

6 MONTH TOTAL RETURN %
4.3

AGGREGATE PROPERTY VALUATIONS \$m
83.9

LOAN TO VALUATION RATIO %
49.3

FY17 distribution outlook

The Benowa Gardens and Pacific Pines centres face increased competition from new centres that have opened or are due to open in their respective trade areas. At Benowa Gardens, the increase in competition is resulting in lower rents and additional incentive payments when shops become vacant.

Accordingly, total distributions payable during the financial year ending 30 June 2017 are expected to remain unchanged at 7.42 cents per annum.

Our FY17 distribution outlook is subject to the projected capital expenditure of the Trust and any variations in market, leasing and trading conditions.

Debt update

The Trust's borrowings increased by \$0.5 million during the six-month period to \$41.4 million at 30 June 2016 in order to finance further minor improvements and leasing capital at the centres.

The total borrowing cost of the Trust at 30 June 2016 was 4.2 per cent per annum which includes the margin, line fee and establishment fee payable and the fixed interest payable under the Trust's interest rate swap.

Highlights

- The Trust provided a total return of 4.3 per cent for the six-month period ended 30 June 2016. The total return reflects distributions totalling 3.7 cents per unit paid during the period and a 0.6 per cent increase in the Net Tangible Assets (NTA) to 103.4 cents per unit as a result of increased property valuations.
- Property valuations undertaken at 30 June 2016 increased by \$1.3 million or 1.6 per cent over the six-month period primarily due to a 25 basis point firming in the capitalisation rate adopted for the Pacific Pines centre to 6.50 per cent.
- As a result of the increase in property valuations, the Trust's Loan to Valuation Ratio (LVR) at 30 June 2016 has decreased slightly to 49.3 per cent from 49.5 per cent at 31 December 2015.

Trust performance

At 30 June 2016, the total return of the Trust since inception is 8.1 per cent per annum.

TRUST PERFORMANCE			
PERFORMANCE	6 MTHS	12 MTHS	SINCE INCEPTION
Total return ¹	4.3%	17.8%	8.1% p.a.

DEBT AT 30 JUNE 2016

LOAN FACILITY LIMIT	\$43.0m
DRAWINGS AT 30 JUNE 2016	\$41.4m
TOTAL INTEREST RATE	4.2% p.a.
YEARS TO MATURITY	3.5

1. Calculated in accordance with Financial Services Council Standard No. 6 which assumes distributions are re-invested in the Trust.

Portfolio update

A total of eight lease deals were completed during the six-month period ended 30 June 2016 which represents approximately 9.0 per cent of the aggregate annual specialty net rental income for the Trust. The Trust's occupancy by income has increased to 97.4 per cent at 30 June 2016 following the letting up of the balance of the premises at Tamworth Homespace previously occupied by Your Homemaker.

Trust property yields are nearing their pre global financial crisis levels because of the strong demand for neighbourhood shopping and large format centres.

Benowa Gardens Shopping Centre

Moving Annual Turnover (MAT) at Benowa Gardens Shopping Centre has declined from December 2015 since the new Coles anchored shopping centre, Benowa Village, located 1.7 kilometres north-west of Benowa Gardens, opened in March 2016.

The valuation of the centre at 30 June 2016 is unchanged at \$40 million. The valuation takes into account the decrease in turnover rent estimated to result from the opening of Benowa Village.

At 30 June 2016, the centre was 94.5 per cent occupied by income and had a weighted average lease expiry by income of 3.1 years. We are in discussions with prospective tenants for all three vacancies at the centre. There is a level of lease renewal risk in the period FY18 to FY19 due to a relatively high proportion of specialty leases expiring during this period as shown in the adjacent chart.

Pacific Pines Town Centre

MAT growth at Pacific Pines has increased to 1.9 per cent at June 2016 from 0.6 per cent at December 2015. However, the trading performance of the centre's Woolworths store is expected to be adversely impacted by a new Coles supermarket to be located approximately 3.0 kilometres north-west of Pacific Pines. The new supermarket is expected to open in October 2016.

The valuation of Pacific Pines Town Centre has increased by \$1 million or 3.8 per cent to \$27 million at 30 June 2016. This increase is primarily due to a further firming of the adopted capitalisation rate by 25 basis points to 6.50 per cent. The valuation takes into account the estimated impact on turnover rent of the new Coles supermarket.

At 30 June 2016, the centre was fully leased and had a weighted average lease expiry of 5.6 years.

The lease expiry profile of Pacific Pines is shown in the adjacent chart. The large expiry in FY24+ is a result of Woolworths' lease expiring in October 2023.

Tamworth Homespace

Tamworth Homespace is fully occupied. However, we continue to seek a tenant for 600 square metres of the 2,400 square metres currently occupied by The Good Guys rent-free until a tenant is found.

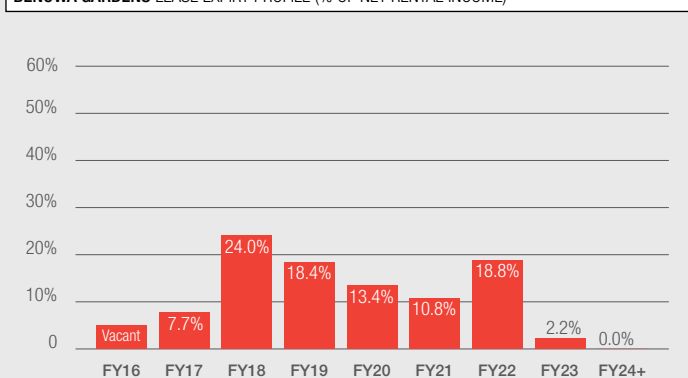
The centre's valuation has increased by \$0.3 million or 1.8 per cent to \$16.9 million at 30 June 2016 largely due to Eureka Street Furniture commencing trading at the centre in April 2016. The centre's weighted average lease expiry at 30 June 2016 was 2.8 years. The lease expiry profile for Tamworth Homespace reflects the expiry of The Good Guys in March 2017 and shows a level of renewal risk in the period FY18 to FY20.

KEY PROPERTY STATISTICS AT 30 JUNE 2016

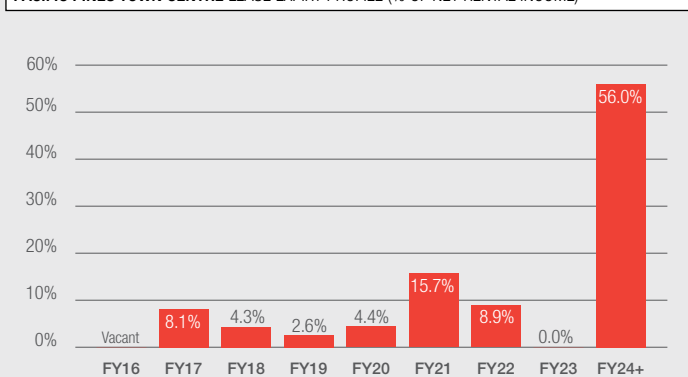
	BENOWA GARDENS SHOPPING CENTRE	PACIFIC PINES TOWN CENTRE	TAMWORTH HOMESPACE
Independent valuation date	30 June 2016	30 June 2016	30 June 2016
Valuation	\$40,000,000	\$27,000,000	\$16,900,000
Valuation rate per square metre	\$6,892	\$4,883	\$1,295
Trust ownership	100%	100%	100%
Cap rate ¹	7.00%	6.50%	9.00%
WALE by rental income ²	3.1	5.6	2.8
Major tenant	Coles	Woolworths	The Good Guys
Major tenant GLA (square metres)	1,960	3,541	2,404 ³
Major tenant lease expiry	April 2022	October 2023	March 2017
Occupancy by rental income ⁴	94.5%	100%	100%

1. The weighted average cap rate by net income for the portfolio is 7.4%.
2. The Weighted Average Lease Expiry (WALE) by rental income for the portfolio is 3.8 years.
3. To be reduced to approximately 1,800 square metres once a suitable tenant is found.
4. The Occupancy by rental income for the portfolio is 97.4%.

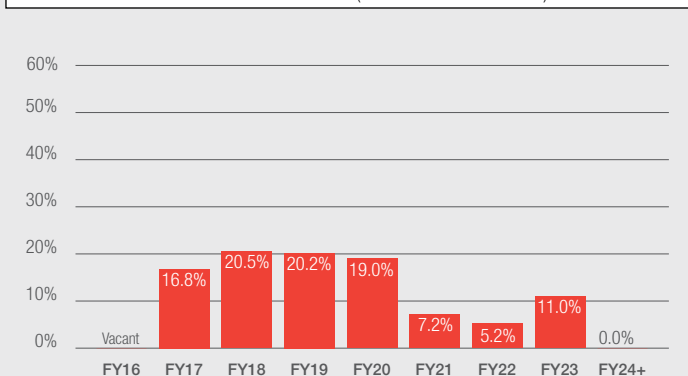
BENOWA GARDENS LEASE EXPIRY PROFILE (% OF NET RENTAL INCOME)



PACIFIC PINES TOWN CENTRE LEASE EXPIRY PROFILE (% OF NET RENTAL INCOME)



TAMWORTH HOMESPACE LEASE EXPIRY PROFILE (% OF NET RENTAL INCOME)



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