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

Stockland Pacific Pines is a neighbourhood shopping centre located in the northern Gold Coast region, near Helensvale. The centre is anchored by Woolworths and has 11 specialty shops, a medical centre and a gym. There is parking for 352 vehicles of which 116 bays are covered following the installation of shade sails in February 2018. Woolworths launched its newly refurbished store at the centre in November 2017 and has exercised an option to extend its lease by a further five years to October 2028.

Investment Report at 30 June 2018

NTA PER UNIT AT 30 JUNE 2018	AGGREGATE PROPERTY VALUATIONS	LOAN TO VALUATION RATIO	OCCUPANCY	TOTAL RETURN SINCE INCEPTION
$1.12[1]	$87.7m	48.1%	96.7%	8.7% p.a.[2]

Highlights

- **The aggregate valuation of the Trust's properties has decreased by $0.6 million or 0.7 per cent to $87.7 million from $88.3 million at 31 December 2017.**
- **The Trust's Net Tangible Assets (NTA) increased to 112.1 cents per unit at 30 June 2018 from 106.2 cents per unit at 31 December 2017.**
- **A meeting of Members will be held no later than 31 March 2019 to consider the future of the Trust.**

Meeting of Members

The outcome of the last meeting of Members held on 27 June 2014 was to continue the Trust and convene another meeting of Members by 30 June 2019 to consider the termination of the Trust. We are nearing the completion of our review of the options available for the Trust. A meeting of Members will be convened no later than 31 March 2019 to give investors the opportunity to consider and vote on the Trust's future. A notice of meeting will be provided to investors in due course.

Performance fee

As we reported to you in our investor update at 31 December 2017, Stockland Capital Partners Limited as responsible entity of the Trust is entitled to a performance fee if specified performance criteria are met, including that unitholders receive at least the return of their subscribed equity.

Whilst the Trust's interim financial report at 31 December 2017 reflected a provision for performance fee of $3.34 million (8.4 cents per unit), the criteria for payment of a performance fee to the responsible entity were not met at 30 June 2018 given the decrease in the valuations of Pacific Pines and Tamworth Homespace at 30 June 2018. Accordingly, the provision for payment of a performance fee has been reversed as reflected in the Trust's annual financial report at 30 June 2018.

Whether a performance fee becomes payable in the future will depend on the selling prices achieved for the properties or the value of the assets if the responsible entity retires or is removed. The provision will be reviewed at the time of preparation of the Trust's future financial reports and may vary depending on changes in the valuations of the properties.

Trust performance

The Trust's increase in NTA of 5.6 per cent to $1.12 per unit, was due to the reversal of the provision for the payment of a performance fee.

The total return of the Trust for the six-month period ended 30 June 2018 was 9.1 per cent[2] reflecting the increase in the Trust's NTA and distributions totalling 3.7 cents per unit paid during the period.

TRUST PERFORMANCE AT 30 JUNE 2018			
	6 MTHS	12 MTHS	SINCE INCEPTION
Total return[2]	9.1%	8.0%	8.7% p.a.

Debt update

The Trust's borrowings remained unchanged at $42.2 million. Whilst 71.1 per cent of the Trust's borrowings are fixed until December 2019, the interest rate applicable to the variable portion of the Trust's borrowings increased during the period, resulting in an uplift in total borrowing costs from 4.1 per cent per annum to 4.2 per cent per annum. The total borrowing cost of the Trust includes the variable interest, margin, line fee and establishment fee payable under its loan facility and the fixed interest payable under the Trust's interest rate swap.

DEBT AT 30 JUNE 2018	
LOAN FACILITY LIMIT	**$43.0 million**
DRAWINGS	**$42.2 million**
TOTAL INTEREST RATE	**4.2% p.a.**
YEARS TO MATURITY	**1.5**

1. The Trust NTA does not allow for costs associated with any potential sale of the properties and winding up of the Trust.
2. Calculated in accordance with Financial Services Council Standard No. 6 which assumes distributions are re-invested in the Trust.

KEY PROPERTY STATISTICS AT 30 JUNE 2018

	BENOWA GARDENS SHOPPING CENTRE	STOCKLAND PACIFIC PINES	TAMWORTH HOMESPACE
Independent valuation date	30 June 2018	30 June 2018	30 June 2018
Valuation	$41,300,000	$28,300,000	$18,100,000
Valuation rate per square metre	$7,111	$5,126	$1,387
Trust ownership	100%	100%	100%
Capitalisation rate[1]	7.00%	6.25%	8.25%
WALE by rental income[2]	3.2	6.3	2.3
Major tenant	Coles	Woolworths	The Good Guys
Major tenant GLA (% of centre GLA)	1,960 sqm (34%)	3,541 sqm (64%)	2,404 sqm (18%)[3]
Major tenant lease expiry	April 2022	October 2028	March 2022
Occupancy by rental income[4]	98.0%	91.6%	100.0%

1. The weighted average capitalisation rate for the portfolio is 7.1 per cent.
2. The 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 for the balance of the lettable area.
4. The Occupancy by rental income for the portfolio is 96.7 per cent.

FY19 outlook

We are pleased to confirm that the Trust achieved our distribution guidance of 7.416 cents per unit for the year ended 30 June 2018.

As we have reported to you previously, the Trust's properties are facing challenging leasing conditions arising from declining retail sales and increased competition. Despite our continued active management of the properties, these conditions are anticipated to contribute to a reduction in the Trust's rental income in the year ending 30 June 2019.

As a result of these conditions, and as notified in our letter dated 13 June 2018, we anticipate Trust distributions to decline in the order of 9 per cent to approximately 6.75 cents per unit for the year ending 30 June 2019.

Benowa Gardens

Whilst the occupancy at Benowa Gardens decreased only slightly to 98.0 per cent at 30 June 2018 from 98.4 per cent at 31 December 2017, four tenants subsequently provided notice that they will vacate the centre by the end of this calendar year. A new tenant has been identified for approximately half of the space vacated by one of these tenants and we continue to procure replacements for the other vacancies.

We are pleased to report that the centre's optometrist has expanded its premises resulting in the relocation of a tenant to a vacant space elsewhere in the centre. We are in advanced discussions with Coles on an extension of its lease beyond its current lease expiry in April 2022. However, these negotiations have not been concluded.

The centre's valuation remained unchanged at $41.3 million largely due to the higher income arising from rent increases during the half-year period to 30 June 2018 being offset by an increase in budgeted outgoings (largely council rates) and negative rent reversion, increased downtime and higher leasing incentives expected to result from increased vacancy. The centre's Weighted Average Lease Expiry (WALE) has decreased to 3.2 years from 3.5 years at 31 December 2017.

Pacific Pines

Occupancy at Pacific Pines increased slightly to 91.6 per cent from 90.8 per cent at 31 December 2017 reflecting the combined impact of the opening of Cut & Grind, a combined hairdressing and café business, and one new vacancy during the half-year period to 30 June 2018. We continue our efforts to find a suitable tenant for the two remaining vacant premises at the centre.

The centre's valuation has decreased slightly by $0.2 million or 0.7 per cent to $28.3 million from $28.5 million at 31 December 2017, largely due to an increase in budgeted outgoings (primarily council and water and sewerage rates) for the centre.

Due mainly to Woolworths extending its lease last year, the asset now has a WALE of 6.3 years.

Tamworth Homespace

Tamworth Homespace continued to be 100 per cent occupied at 30 June 2018, however two tenants intend to vacate the centre by 30 June 2019. We are actively searching for replacements for both tenants.

In anticipation of a large portion of the centre's leases expiring during the current financial year, we have undertaken minor refurbishment works at the centre including repainting, landscaping and installation of new directional signage to maintain the centre's competitiveness and appeal to both tenants and shoppers.

Higher budgeted operating expenses and an allowance for potential negative rent reversion and increased downtime as a result of the upcoming lease expiries have resulted in the centre's valuation decreasing by $0.4 million or 2.2 per cent to $18.1 million. The centre's WALE has decreased to 2.3 years from 2.8 years at 31 December 2017.

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