



Stockland

Stockland Direct Retail Trust No.1 (SDRT1 or the Trust) Investment Report at 30 June 2019



Stockland Pacific Pines sold on 19 August 2019 for \$30.81 million, the first property sold following the vote by unitholders on 8 March 2019 to sell all of the properties of the Trust and proceed to wind it up.

Key Trust statistics at 30 June 2019

NTA PER UNIT AT 30 JUNE 2019	AGGREGATE PROPERTY BOOK VALUES	LOAN TO VALUATION RATIO	OCCUPANCY	TOTAL RETURN SINCE INCEPTION
\$0.98 ¹	\$83.7m ²	51.2% ³	89.8%	7.3% p.a. ⁴

Highlights

- Stockland Pacific Pines was sold on 19 August 2019 for \$30.81 million and the sale proceeds used to repay \$23.25 million of Trust debt and pay an interim distribution to unitholders of 17.8207 cents per unit.
- A non-binding heads of agreement for the sale of Tamworth Homespace was entered into on 22 August 2019.
- The aggregate book value of the Trust's properties as adopted by the directors at 30 June 2019 has decreased by \$2.3 million (\$0.06 per unit) or 2.7 per cent to \$83.7 million from \$86.0 million at 31 December 2018.
- The Trust's Net Tangible Assets (NTA) decreased to \$0.98 per unit at 30 June 2019 from \$1.08 per unit at 31 December 2018.¹
- Coles has received Board approval to extend its lease at Benowa Gardens by a further 12 years.

Property sales update

At the meeting of members held on 8 March 2019, unitholders voted to sell all of the properties of the Trust and terminate and wind up the Trust.

Since the meeting of members, Pacific Pines has been sold and settled on 19 August 2019. Following the completion of an on-market expressions of interest campaign, a non-binding heads of agreement has

been entered into for the sale of Tamworth Homespace for a gross sale price of \$15.022 million which will result in a net purchase price of \$14.1 million after adjustments for outstanding incentives, committed lessor works and rental guarantees. The agreement is still conditional and a further update on the sale will be provided in due course.

We intend to commence a marketing campaign for the sale of Benowa Gardens as soon as practicable after documentation relating to the agreed lease extension with Coles has been executed.

Trust performance

The decrease in Trust NTA to \$0.98 per unit at 30 June 2019 was due to the recognition of a provision for disposal and winding-up costs of \$0.04 per unit and the decrease in the aggregate book values of the Trust's properties.

The total return of the Trust for the six-month period ended 30 June 2019 was -6.7 per cent⁴, reflecting the decrease in the Trust's NTA.

TRUST PERFORMANCE AT 30 JUNE 2019⁴

	6 MTHS	12 MTHS	SINCE INCEPTION
Total return	-6.7%*	-7.0%*	7.3% p.a.

*The decrease in total return is due to the recognition of a provision for disposal and winding-up costs and the decrease in the aggregate book value of the Trust's properties.

September 2019 quarter distribution

A distribution of income equal to 1.31 cents per unit has been declared in respect of the quarter ending 30 September 2019, payable on 31 October 2019. This is lower than the distribution of 1.69 cents per unit declared for the quarter ended 30 June 2019 reflecting the decrease in the Trust's funds from operations as a result of selling Pacific Pines. Future quarterly distributions of income will decrease as the Trust's remaining properties are sold and will be dependent on the ability of the Trust to meet its ongoing obligations.

¹ The Trust NTA allows for the costs associated with the intended sale of the properties and winding-up of the Trust.

² Whilst the independent valuation of Pacific Pines at 30 June 2019 was \$30.0 million, the Trust NTA reflects an adopted book value equal to the property's sale price or \$30.81 million. Similarly, whilst the independent valuation of Tamworth Homespace at 30 June 2019 was \$14.5 million, the Trust NTA reflects an adopted book value equal to the estimated net sale price of \$14.1 million based on the non-binding heads of agreement entered into on 22 August 2019.

³ Calculated in accordance with the Trust's loan facility as the ratio of drawn debt to the aggregate independent valuation of the Trust's properties at 30 June 2019.

⁴ Calculated in accordance with Financial Services Council Standard No. 6 which assumes distributions are re-invested in the Trust.

Debt update

A further \$0.4 million of debt was drawn down during the six months ended 30 June 2019 to finance leasing capital at Benowa Gardens and Tamworth Homespace. The Trust's borrowing cost at 30 June 2019 decreased by 20bps to 4.0 per cent per annum.

The Trust's loan facility with Commonwealth Bank has been extended by a further six months to 30 September 2020 on the same terms as the existing facility to provide financing whilst the sale and winding-up process is ongoing.

DEBT AT 30 JUNE 2019	
LOAN FACILITY LIMIT	\$43.0 million
DRAWINGS	\$42.6 million
TOTAL INTEREST RATE	4.0% p.a. ⁵
YEARS TO MATURITY	1.25

Following the settlement of Pacific Pines, the Trust has repaid \$23.25 million of debt resulting in drawn debt decreasing to \$19.35 million and the Trust's loan to value ratio decreasing to 36.3 per cent from 51.2 per cent at 30 June 2019.

Portfolio update

As we foreshadowed in the explanatory memorandum provided for the meeting of members held in March 2019, Benowa Gardens and Tamworth Homespace have experienced challenging leasing and trading conditions during the six months ended 30 June 2019. These conditions have been characterised by lower retail sales, lower rental income on expiry of leases, increased incentives and higher vacancies.

Notwithstanding some leasing success, the net number of vacancies at the Trust's properties has increased to 15 at 30 June 2019 from 11 at 31 December 2018 and Trust occupancy has decreased to 89.8 per cent by income from 94.2 per cent at 31 December 2018. The Trust's weighted average lease expiry (WALE) at 30 June 2019 decreased to 3.6 years by income from 3.8 years at 31 December 2018.

A total of seven speciality leases either commenced or were renewed during the period, which in aggregate represented 8.6 per cent of Trust speciality income.

Benowa Gardens

During the six months ended 30 June 2019, three tenants vacated Benowa Gardens resulting in the centre's occupancy decreasing to 88.6 per cent by income from 92.8 per cent at 31 December 2018.

Since 30 June 2019, a baker and a butcher, which together comprise 3.8 per cent of centre income, have commenced leases of two of the vacant premises. The centre's WALE at 30 June 2019 decreased slightly to 3.0 years by income from 3.1 years at 31 December 2018.

The centre's book value at 30 June 2019 decreased by \$1.35 million or 3.4 per cent to \$38.75 million from \$40.1 million at 31 December 2018 largely due to the impact of lower rents, increased downtime and higher leasing incentives as a result of current vacancies.

We are pleased to report that in August 2019, Coles received Board approval to extend its lease at the centre for a further 12 years and refurbish its store in return for the lessor completing a minor upgrade of the centre including the installation of travelators and improving the entries. The book value of Benowa Gardens at 30 June 2019 does not take into account the construction costs, increased rent and any change in value that may arise as a result of Coles extending its lease.

Pacific Pines

Occupancy at Pacific Pines increased to 97.7 per cent at 30 June 2019 from 95.7 per cent at 31 December 2018 as a result of letting up a long-term vacancy at the centre. Whilst the centre's WALE decreased to 6.1 years by income at 30 June 2019 from 6.4 years at 31 December 2018, the centre's book value at 30 June 2019 increased by \$3.0 million or 10.8 per cent to \$30.81 million from \$27.8 million at 31 December 2018 reflecting the sale price actually achieved for the property.

Tamworth Homespace

Reflecting the continued difficult trading conditions experienced by Tamworth Homespace, two tenants, equivalent to 13.5 per cent of centre income, vacated the centre during the six months ended 30 June 2019. Accordingly, occupancy decreased to 82.9 per cent by income at 30 June 2019 from 95.3 per cent at 31 December 2018 and the centre's WALE decreased to 1.6 years by income at 30 June 2019 from 1.9 years.

These conditions, in addition to a weak investment market for properties comparable to Tamworth Homespace, have resulted in the centre's book value at 30 June 2019 decreasing to \$14.1 million from \$18.1 million at 31 December 2018. The adopted book value reflects the estimated net sale price based on the non-binding heads of agreement entered into on 22 August 2019.

Prior to commencing the marketing campaign for the sale of the property, new leases were agreed with Petbarn, Pillow Talk and Sheridan, which together comprised 23.8 per cent of centre income at 30 June 2019. Pillow Talk will downsize to a smaller store once a suitable tenant has been found for the balance of its current premises.

KEY PROPERTY STATISTICS AT 30 JUNE 2019			
	BENOWA GARDENS SHOPPING CENTRE	STOCKLAND PACIFIC PINES	TAMWORTH HOMESPACE
Trust ownership	100%	100%	100%
Independent valuation date	30 June 2019	30 June 2019	30 June 2019
Independent valuation	\$38,750,000	\$30,000,000	\$14,500,000
Independent valuation rate per square metre	\$6,671	\$5,434	\$1,111
Capitalisation rate ^a	7.00%	6.00%	8.50%
Adopted book value ^b	\$38,750,000	\$30,810,000	\$14,100,000
WALE by rental income ^c	3.0	6.1	1.6
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%)
Major tenant lease expiry	April 2022	October 2028	March 2022
Occupancy by rental income ^d	88.6%	97.7%	82.9%

a. The weighted average capitalisation rate for the portfolio is 7.0 per cent.

b. The adopted book value of Pacific Pines included in the Trust's NTA at 30 June 2019 reflects the sale price of the property actually achieved at settlement on 19 August 2019. The adopted book value of Tamworth Homespace included in the Trust's NTA and reported in the Trust's financial report for the year ended 30 June 2019 reflects the estimated net sale price based on the non-binding heads of agreement entered into on 22 August 2019.

c. The WALE by rental income for the portfolio is 3.6 years.

d. The Occupancy by rental income for the portfolio is 89.8 per cent.

Unit Registry

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⁵ 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.