



Stockland

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



We are pleased to report that the Trust has performed well over the 12 month period to 30 June 2013 and is now 99 per cent occupied and has a WALE* of 4.9 years.

*Weighted average lease expiry by income

Pacific Pines Town Centre was developed by Stockland as part of a masterplanned community, situated in the northern Gold Coast region, near Helensvale. The neighbourhood shopping centre has an open plan style and is anchored by Woolworths plus 13 speciality stores and parking for 355 vehicles.

30 June 2013

Highlights

- Total return of 14.8 per cent for the 12 months to 30 June 2013.
- Unit price increased to 68 cents per unit.
- Property values increased by 2.9 per cent during the six month period to 30 June 2013.
- Strong asset management resulted in an improved portfolio occupancy rate of 99 per cent and a WALE (weighted average lease expiry) of 4.9 years by income and 5.5 years by floor area.

Trust performance

The Trust provided investors with a total return of 14.8 per cent for the 12 month period to 30 June 2013 as a result of the increase in property valuations and the total annual distribution payment of 4.8 cents per unit.

The unit price increased by 7.9 per cent to 68 cents per unit as at 30 June 2013.

Portfolio update

The Stockland management team has achieved leasing success across the Trust portfolio resulting in an improvement in the portfolio valuation and the lease expiry profile of the assets.

At Pacific Pines the leasing team renewed four of the five leases that were due to expire in the second half of calendar year 2013. The medical centre tenant has advised that they will not renew their lease upon expiry in October 2013. The leasing team are actively seeking a replacement tenant.

As a result of the lease renewals and improved lease expiry profile for Pacific Pines, the value of the property increased by 4.8 per cent during the six month period to \$22.0 million as at 30 June 2013.

Tamworth Homespace is now 100 per cent occupied as a result of strong asset management and new lease deals. New tenants to Tamworth Homespace include Lincraft, Sheridan, Snooze, Petbarn and Pillowtalk. The improved lease expiry profile has resulted in an improved investment performance outlook for the property, with no lease expiries prior to August 2015.

The valuation of Tamworth Homespace increased by 6.9 per cent during the six month period to \$13.9 million as at 30 June 2013.

At Benowa Gardens Stepz Fitness opened in June 2013. In addition, a number of existing tenants have renewed their lease and/or

undertaken refurbishment works to renew the look of their tenancy. The occupancy rate for the centre has improved to 96 per cent. The valuation remained unchanged at \$31.5 million as at 30 June 2013.

The Stockland management team has budgeted to undertake capital works at Benowa Gardens during the 2014 financial year to improve the appearance and operation of the centre.

Debt update

The Trust's debt facility with National Australia Bank matures on 31 December 2013. There were no additional drawings from the facility during the six month period to 30 June 2013.

The Trust's loan to valuation ratio (LVR) at 30 June 2013 was 58.4 per cent, below the 65 per cent maximum allowed by the Trust's financier. The interest rate on the loan facility as at 30 June 2013 was 5.1 per cent, including the line fee and margin.

Stockland management has commenced discussions with the Trust's financier and other potential financiers for a further renewal of the debt facility and management is confident that the facility will be successfully renegotiated.

UNIT PRICE
\$ PER UNIT

0.68

12 MONTH
TOTAL
RETURN
%

14.8

LOAN TO
VALUATION
RATIO
%

58.4

TRUST PERFORMANCE*

PERFORMANCE	6 MTH %	12 MTH %	INCEP- TION % P.A.
Distributed return	4.0	8.2	7.0
Growth return	7.6	6.6	-5.8
Total return	11.6	14.8	1.2

* Calculated in accordance with IFSA Standard No. 6.

DEBT*

	\$M
LOAN FACILITY	\$40.00
DRAWINGS	\$39.35
INTEREST RATE	5.1%
YEARS TO MATURITY	0.5

* As at 30 June 2013.

Fund strategy

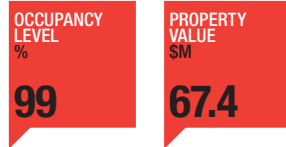
The RE is currently undertaking a strategic review of the Trust's investment strategy and will provide its recommended strategy in due course. In the meantime the RE will continue to manage the Trust in accordance the current investment strategy.

Economic update

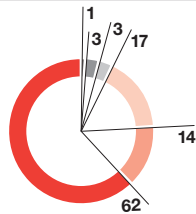
The overall external economic environment has improved over the last six months. The U.S. economy handled the cuts to federal spending better than expectations, unemployment continues to fall, and the housing sector, both established prices and new construction, is improving, taking consumer confidence along with it. Eurozone risks continue to moderate, even though the growth prospects continue to be weak for the medium term. China is where the most risk lies for the Australian economy with growth expectations being wound back on concerns of investment levels being too dependent on loose credit conditions.

Domestically, the economy is transitioning as mining investment reduces, as well as dealing with falling fiscal stimulus as state and local governments reign in spending. Commodity prices have recovered more recently, but are still forecast to fall. The lower Australian dollar is helping industries that have struggled with a high exchange rate, such as tourism, manufacturing, and education. Overall the expectation is for slightly below trend growth over the medium term.

Unemployment results have caught up with forecasts to hit 5.7 per cent and might go higher. Most forecasts don't see unemployment exceeding 6 per cent, but lead indicators like job advertisements and unemployment expectations remain weak. Inflation remains well contained, and is expected to allow the RBA to reduce interest rates at least once more in the current easing cycle.



EXPIRY PROFILE JUNE 2013 BY AREA %



	%
VACANT	1
FY14	3
FY15	3
FY16	17
FY17	14
FY18+	62



MAJOR TENANTS BY INCOME	%
WOOLWORTHS	10
COLES	9
THE GOOD GUYS	4
BENOWA GARDENS PHARMACY	4
BWS	4

KEY PROPERTY STATISTICS AS AT JUNE 2013

	BENOWA GARDENS SHOPPING CENTRE	PACIFIC PINES TOWN CENTRE	TAMWORTH HOMESPACE	TOTAL/WEIGHTED AVERAGE
Independent valuation	30 Jun 2013	30 Jun 2013	30 Jun 2013	
Valuation	\$31,500,000	\$22,000,000	\$13,900,000	\$67,400,000
Value rate per sqm	\$5,460	\$3,987	\$1,065	
Interest	100%	100%	100%	
Cap rate	8.50%	7.75%	11.00%	
WALE*	4.5	6.1	4.3	4.9
Major tenant	Coles	Woolworths	The Good Guys	
GLA	1,960	3,541	2,404	
Lease expiry	Apr 2022	Oct 2023	Mar 2017	
Occupancy	96%	100%	100%	

* By income.

Market update

Retail asset values are continuing to stabilise due to the improving demand for quality assets. There may be some downward pressure on yields in the short to medium term if the lack of availability of good quality stock continues, creating competition amongst buyers. Secondary assets are, however, continuing to transact on higher yields relative to good quality assets.

A total of 41 retail assets above \$5 million transacted in Queensland* during 2012 at an average price of \$63 million and at an average yield of 8.9 per cent. Yields for neighbourhood shopping centres remain steady to range between 7.75 per cent and 10.0 per cent. Private investors continue to be the most active buyer for assets below \$40 million, particularly for neighbourhood centres.

In recognition of the improvement in both investment market sentiment and forecast retail sales growth, a number of shopping centre owners are progressing their development pipelines and are expected to begin their next round of refurbishments and expansions over the short to medium term. Construction levels for Queensland in 2013 remain slightly above the five year average.

Neighbourhood shopping centre net rents range between \$480/sq m and \$880/sq m.

Retail sales growth in the bulky goods sector has been relatively subdued due to various factors including cost of living increases, household debt, increased level of savings, minimal (if any) house price growth and an increase in online retailing. As a result, market rental growth on lease renewals and new lease deals has been limited.

Buyer demand for bulky goods centres continues to be subdued and the pool of buyers is relatively thin, conversely interest for prime shopping centres remains robust. A total of 30 bulky goods centres above \$5 million transacted throughout Australia in 2012 at an average price of \$30.1 million. Whilst the trend highlights a tightening in investment parameters for bulky goods centres, yields fall within a wide range depending on the quality of the centre. Yields for regional bulky goods centres generally range between 9.5 per cent and 11.75 per cent.

Rents for NSW regional bulky goods centres remained steady over the past 12 months at an average net rent of \$150/sq m.

* Includes Northern Territory.
Source: CBRE

Unit Registry

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