



Stockland

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



Tamworth Homespace is a single level bulky goods shopping centre located on the New England Highway, 4 kilometres south of the Tamworth CBD. Developed by Stockland, the centre commenced trading in November 2004 and is anchored by The Good Guys. There are 11 additional bulky goods tenancies and a medical centre, with on-site parking for 416 vehicles.

At 31 December 2015

NTA AT 31
DECEMBER 2015
CENTS PER UNIT

102.80

6 MONTH TOTAL
RETURN
%

13.0

AGGREGATE
PROPERTY
VALUATIONS
\$M

82.6

LOAN TO
VALUATION
RATIO
%

49.5

Highlights

- The Trust provided a total return of 13.0 per cent for the six month period ended 31 December 2015 reflecting an increase in distributions paid to investors and an 8.9 per cent increase in the Net Tangible Assets (NTA) to 102.8 cents per unit as a result of increased property valuations.
- Property valuations undertaken at 31 December 2015 increased by \$4 million or 5.1 per cent over the six month period, with the weighted average capitalisation rate firming by 30 basis points to 7.3 per cent demonstrating continued strong demand for properties in this asset class.
- As a result of the increase in property valuations, the Trust's Loan to Value Ratio (LVR) has decreased to 49.5 per cent.

Trust performance

The total return of the Trust since inception has increased to 8.1 per cent per annum at 31 December 2015 due to increases in distributions and property valuations.

TRUST PERFORMANCE			
PERFORMANCE	6 MTHS	12 MTHS	SINCE INCEPTION
Total return ¹	13.0%	30.2%	8.1% p.a.

Debt update

As reported previously, the Benowa Gardens and Pacific Pines centres have required additional maintenance and minor works to improve the appearance and operational performance of the centres as they face competition from new developments in their respective trade areas.

Accordingly, the borrowings of the Trust increased by \$0.4 million during the six month period to \$40.9 million at 31 December 2015 to finance these works.

To enhance the Trust's liquidity, on 11 March 2016 the loan facility limit was increased by \$2 million to \$43 million on the same pricing and terms as the initial facility. This will enable the Trust to continue the program of minor improvements at the Benowa Gardens and Pacific Pines centres and improve their competitiveness.

The total borrowing cost of the Trust at 31 December 2015 was 4.3 per cent per annum including the margin, line fee and establishment fee payable and the fixed interest payable under the Trust's interest rate swap.

DEBT	\$M
LOAN FACILITY LIMIT	\$43.0
DRAWINGS	\$40.9
TOTAL BORROWING COST	4.3% P.A.
YEARS TO MATURITY	4.0

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

KEY PROPERTY STATISTICS AT 31 DECEMBER 2015

	BENOWA GARDENS SHOPPING CENTRE	PACIFIC PINES TOWN CENTRE	TAMWORTH HOMESPACE
Independent valuation date	31 December 2015	31 December 2015	31 December 2015
Valuation	\$40,000,000	\$26,000,000	\$16,600,000
Valuation rate per square metre	\$6,892	\$4,703	\$1,272
Trust ownership	100%	100%	100%
Cap rate	7.00%	6.75%	9.00%
WALE by rental income ¹	3.2	6.1	2.3
Major tenant	Coles	Woolworths	The Good Guys
Major tenant GLA (square metres)	1,960	3,541	2,404 ²
Major tenant lease expiry	April 2022	October 2023	March 2017
Occupancy by rental income ³	94%	100%	95%

1. The Weighted Average Lease Expiry (WALE) by rental income for the portfolio is 3.8 years.

2. To be reduced to approximately 1,800 square metres once a suitable tenant is found.

3. The Occupancy by rental income for the portfolio is 96%.

Portfolio update

The portfolio occupancy by income has been maintained at 96 per cent.

We continue to actively manage the portfolio with a focus on maintaining strong relationships with tenants and expanding the food and convenience offering at Benowa Gardens.

Benowa Gardens

The valuation of Benowa Gardens has increased by \$1 million or 2.6 per cent to \$40 million due to a 25 basis point firming in the adopted capitalisation rate.

At 31 December 2015, the centre was 94 per cent leased and had a weighted average lease expiry by rental income of 3.2 years. The FY16 lease expiry risk has largely been addressed following the renewal of four leases during the six month period. Discussions have commenced with tenants whose leases expire during FY17 to reduce the risk of these tenants vacating the centre.

The construction of Benowa Village, a new shopping centre located 1.7 kilometres north west of Benowa Gardens, is nearing completion. The new centre will comprise a Coles supermarket of 4,265 square metres, 13 speciality tenancies, 3 pad sites and car parking for 320 vehicles.

A program of improvements has commenced at Benowa Gardens in anticipation of the increased competition from the new centre.

The latest valuation has regard to the increased competition as a result of the new centre and the projected expenditure for the proposed improvements.

Pacific Pines Town Centre

The valuation of Pacific Pines Town Centre has increased by \$2 million or 8.3 per cent to \$26 million due to an increase in income and a further 25 basis point firming of the adopted capitalisation rate. The valuer has taken into account the estimated impact of a new competing Coles supermarket of 3,700 square metres currently under construction, approximately 3 kilometres north west of Pacific Pines. The new supermarket is due to be completed in the second half of calendar year 2016.

During the six months ended 31 December 2015, three lease renewals were agreed and one vacant shop was leased. In aggregate, the four tenants represented 35 per cent of the speciality rent income for the centre.

At 31 December 2015, the centre was fully leased and had a weighted average lease expiry of 6.1 years.

We continue to evaluate a possible expansion of Woolworths, the Pacific Pines' major tenant, which is expected to enhance the supermarket's appeal in the face of the new Coles supermarket. Clearly, an expansion of the supermarket at Pacific Pines will only occur if an acceptable agreement can be reached with Woolworths.

The cost of a potential expansion has not been allowed for in our projected capital expenditure and is likely to require additional borrowings if the expansion is to proceed. We will provide an update on the proposal in our next report.

Tamworth Homespace

The valuation of Tamworth Homespace has increased by \$1 million or 6.4 per cent to \$16.6 million primarily due to a 50 basis point firming in the adopted capitalisation rate to 9.00 per cent. The adopted capitalisation rate is higher than the Trust's other properties because the yields from large format retail assets are generally higher than those from neighbourhood shopping centres. Further, the higher capitalisation rate reflects the regional location of the asset, the centre's vacancy level, lease expiry risk and the competition from other large format retailers located nearby.

Early Settler commenced trading at the centre in December 2015 from half of the premises previously occupied by Your Homemaker. We are actively canvassing retailers for the balance of the premises.

As the previous Your Homemaker tenancy has only been partially re-let, the centre's occupancy has decreased to 95 per cent. We are satisfied that the latest valuation allows for an appropriate letting up period for the vacancy.

We continue to source a tenant for 600 square metres of the 2,400 square metres currently occupied by The Good Guys rent free until the space can be leased. The centre's weighted average lease expiry was 2.3 years at 31 December 2015.

Three tenants with leases expiring in FY16 have all renewed. In addition to securing a tenant for the vacancy, our focus is on the leases due to expire in FY17.

Unit Registry

Computershare Investor Services Pty Limited
Phone 1300 855 080
www.computershare.com

Stockland Direct Retail Trust No.1
ARSN 12 1832 086

Responsible Entity

Stockland Capital Partners Limited
ABN 86 078 081 722
AFSL 241188
Email unlistedpropertyfunds@stockland.com.au
www.stockland.com.au/UnlistedPropertyFunds

DISCLAIMER OF LIABILITY

While every effort is made to provide accurate and complete information, Stockland does not warrant or represent that the information in this report is free from errors or omissions or is suitable for your intended use. The information provided in this report is of a general nature only and may not be suitable for your specific situation or needs. It should not be relied upon by you in substitution of obtaining independent advice. Subject to any terms implied by law and which cannot be excluded, Stockland accepts no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error, omission or misrepresentation in information in this report. All information in this report is subject to change without notice.