



Stockland

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 31 December 2018

NTA PER UNIT AT 31 DECEMBER 2018	AGGREGATE PROPERTY VALUATIONS	LOAN TO VALUATION RATIO	OCCUPANCY	TOTAL RETURN SINCE INCEPTION
\$1.08 ¹	\$86.0m	49.1%	94.2%	8.3% p.a. ²

Highlights

- The aggregate valuation of the Trust's properties has decreased by \$1.7 million or 1.9 per cent to \$86.0 million from \$87.7 million at 30 June 2018.
- The Trust's Net Tangible Assets (NTA) decreased to \$1.08 per unit at 31 December 2018 from \$1.12 per unit at 30 June 2018.

Meeting of Members

A meeting of persons registered as holders of units in the Trust (**Members**) will be held at 2:00pm AEDT on Friday, 8 March 2019, to consider and vote on the future of the Trust (**Meeting**). The Meeting will be held at level 25, 133 Castlereagh Street, Sydney.

The responsible entity considers it is in the best interests of Members to terminate and wind-up the Trust and sell all of the Trust's properties or interests in the properties. The basis of this conclusion is set out in the notice of meeting and explanatory memorandum issued to investors on 12 February 2019 (together the **Notice of Meeting**).

The Notice of Meeting is an important document and should be read in its entirety.

If you have not received the Notice of Meeting, please contact us for a copy.

Proposed resolutions

Resolution 1: Special resolution to terminate and wind-up the Trust and sell all of the properties or interests in the properties of SDRT1.

The Directors of the responsible entity unanimously recommend that you vote in favour of Resolution 1 to terminate the Trust on the date on which the last property of the Trust is sold and wind-up the Trust.

If Resolution 1 is passed, there will be no need to call for a vote on Resolutions 2 and 3. If Resolution 1 is **not** passed, that is, Members decide not to terminate the Trust, Members will be asked to vote on Resolutions 2 and 3 as follows:

Resolution 2: Ordinary resolution to continue the Trust and convene another meeting of Members of SDRT1 by 30 June 2024.

Resolution 3: Special resolution to sell the property or SDRT1's interest in the property located at 425-437 Goonoo Goonoo Road, Hillvue, New South Wales (Tamworth Homespace).

If Resolution 1 is not passed, the Directors unanimously recommend that you vote in favour of Resolutions 2 and 3.

Accordingly, if voting by proxy, the Directors recommend that unitholders direct their proxy by marking "For" in the case of Resolution 1, "For" in the case of Resolution 2 and "For" in the case of Resolution 3.

Trust performance

The Trust's decrease in NTA of 3.6 per cent to \$1.08 per unit, was due to a decrease in the valuations of Benowa Gardens and Stockland Pacific Pines.

The total return of the Trust for the six-month period ended 31 December 2018 was -0.4 per cent² reflecting the decrease in the Trust's NTA and a reduction in Trust distributions to 1.69 cents per unit per quarter in FY19 from 1.854 cents per unit per quarter paid in FY18.

TRUST PERFORMANCE AT 31 DECEMBER 2018²

	6 MTHS	12 MTHS	SINCE INCEPTION
Total return	-0.4%	8.7% ³	8.3% p.a.

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.

3. The Trust's performance for the 12-month period ended 31 December 2018 reflects the reversal of the performance fee provision at 30 June 2018.

KEY PROPERTY STATISTICS AT 31 DECEMBER 2018

	BENOWA GARDENS SHOPPING CENTRE	STOCKLAND PACIFIC PINES	TAMWORTH HOMESPACE
Independent valuation date	31 December 2018	31 December 2018	31 December 2018
Valuation	\$40,100,000	\$27,800,000	\$18,100,000
Valuation rate per square metre	\$6,904	\$5,035	\$1,387
Trust ownership	100%	100%	100%
Capitalisation rate ^a	7.00%	6.25%	8.25%
WALE by rental income ^b	3.1	6.4	1.9
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%) ^c
Major tenant lease expiry	April 2022	October 2028	March 2022
Occupancy by rental income ^d	92.8%	95.7%	95.3%

a. The weighted average capitalisation rate for the portfolio is 7.1 per cent.

b. The WALE by rental income for the portfolio is 3.8 years.

c. To be reduced to approximately 1,800 square metres once a suitable tenant is found for the balance of the lettable area.

d. The Occupancy by rental income for the portfolio is 94.2 per cent.

Debt update

The Trust's loan facility with Commonwealth Bank has been extended by just over 3 months to 31 March 2020 on the same terms as the existing facility.

DEBT AT 31 DECEMBER 2018	
LOAN FACILITY LIMIT	\$43.0 million
DRAWINGS	\$42.2 million
TOTAL INTEREST RATE	4.2% p.a.
YEARS TO MATURITY	1.25

Portfolio update

Total vacancies at the Trust's properties at 31 December 2018, increased in net terms to ten from seven at 30 June 2018. During this period, four tenants vacated Benowa Gardens, one tenant vacated Tamworth Homespace and two premises were let (one at each of Benowa Gardens and Stockland Pacific Pines). Accordingly, Trust occupancy has declined to 94.2 per cent from 96.7 per cent at 30 June 2018.

A total of eight specialty leases were renewed and two new specialty leases commenced during the period which in aggregate represented 9.9 per cent of total Trust specialty income.

Benowa Gardens

As reported in our last update, four tenants provided notice that they would vacate the centre before 31 December 2018 and accordingly, the centre's occupancy has decreased to 92.8 per cent from 98.0 per cent at 30 June 2018. A new tenant commenced a lease on half of the space vacated by one of these tenants in January 2019 and we continue to procure replacements for the other vacancies.

Our discussions with Coles on an extension of its lease beyond its current lease expiry in April 2022 are expected to be resolved prior to 30 June 2019. If Coles agrees to a lease extension, the centre's weighted average lease expiry (**WALE**) is anticipated to increase to approximately 5.0 years at 30 June 2019 from 3.1 years at 31 December 2018.

The centre's valuation decreased by \$1.2 million or 2.9 per cent to \$40.1 million from \$41.3 million at 30 June 2018 largely due to the impact of rental abatements, increased downtime and higher leasing incentives as a result of the recent vacancies.

Stockland Pacific Pines

Occupancy at Stockland Pacific Pines increased to 95.7 per cent at 31 December 2018 from 91.6 per cent at 30 June 2018 largely as a result of letting up a long-term vacancy at the centre. The premises leased to LJ Hooker was partitioned into two with LJ Hooker renewing its lease of approximately two-thirds of the original space and Cygnall commencing a new lease of the balance area. We continue our efforts to find a suitable tenant for the two remaining vacant premises at the centre.

Whilst occupancy has improved, the centre's valuation has decreased by \$0.5 million or 1.8 per cent to \$27.8 million from \$28.3 million at 30 June 2018, largely due to an unforeseen increase in non-recoverable land tax for the centre.

The centre's WALE has increased slightly to 6.4 years from 6.3 years at 30 June 2018 as a result of lease renewals during the period.

Tamworth Homespace

Tamworth Homespace's occupancy decreased to 95.3 per cent from 100.0 per cent⁴ at 30 June 2018 due to a tenant vacating the centre during the period. We are actively searching for a replacement. The centre's valuation remains unchanged at \$18.1 million. Our focus is to resolve the four leases (representing 23.2 per cent of total centre income) which expire in the six-month period ending 30 June 2019.

Unit Registry

Computershare Investor Services Pty Limited
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www.computershare.com

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ARSN 12 1832 086

Responsible Entity

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4. Albeit The Good Guys has the right to hand back (without penalty) 600 square metres.