



Stockland

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

Investment Report at 31 December 2019



Contracts for the conditional sale of Benowa Gardens exchanged on 7 February 2020. Benowa Gardens is the final property in the Trust to sell following the vote by unitholders on 8 March 2019 to sell all of the Trust's properties and proceed to wind it up.

Key Trust statistics

NTA PER UNIT AT 31 DEC 2019	AGGREGATE PROPERTY BOOK VALUES	LOAN TO VALUATION RATIO	OCCUPANCY	TOTAL RETURN SINCE INCEPTION
\$0.84¹	\$40.1m²	14.5%³	84.8%	7.4% p.a.⁴

Highlights

- The Trust's Net Tangible Assets (NTA) decreased to \$0.84 per unit at 31 December 2019 from \$0.98 per unit at 30 June 2019 primarily as a result of the interim distribution paid to unitholders on 26 August 2019 following the sale of Pacific Pines.¹
- The sale of Tamworth Homespace settled on 31 October 2019 for a gross sale price of \$15.022 million resulting in a net sale price of \$14.1 million after adjustments for outstanding incentives, committed lessor works and rental guarantees.
- Conditional contracts for the sale of Benowa Gardens exchanged on 7 February 2020 for a sale price of \$40.1 million, reflecting a \$2.1 million or 5.5 per cent increase on the independent valuation of the property as at 31 December 2019.
- The total net realisation estimated to be received by unitholders taking into account the distribution of \$0.178 per unit, paid on 26 August 2019 arising from the sale of Pacific Pines, has increased to \$1.02 per unit from \$0.98 per unit at 30 June 2019, assuming there are no claims on the vendor warranties provided in connection with the sale of the Trust's properties.
- Coles executed an amendment of lease in November 2019 to refurbish its store and extend its lease by 12 years, subject to the completion of various lessor works.

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 and Tamworth Homespace were sold on 19 August 2019 and 31 October 2019, respectively.

Following the completion of an on-market expression of interest campaign for Benowa Gardens, sale contracts were exchanged on 7 February 2020 which reflected a purchase price of \$40.1 million. The sale of Benowa Gardens is anticipated to settle on 20 March 2020 subject to receiving council approval prior to that date, of an application to change the car parking requirements for the centre.

The sale of Benowa Gardens is on the basis that the purchaser is responsible for completing lessor works required in connection with the Coles amendment of lease. Following the sale of the property, the Trust will have no residual liability if the lessor works are not completed and the Coles lease is not extended.

In line with normal market practice, vendor warranties have been negotiated as part of the sale of all of the Trust's properties. The warranty period for Tamworth Homespace expired on 29 February 2020 without any claims being made. The warranty period in connection with the sale of Pacific Pines expires on 19 August 2020. The warranty period for Benowa Gardens is the last to expire and expires nine months after settlement.

¹ The Trust NTA allows for an estimate of the costs associated with the sale of the properties and winding-up of the Trust. The total net realisation estimated to be received by unitholders, taking into account the distribution of \$0.178 per unit paid on 26 August 2019 following the sale of Pacific Pines, is \$1.02 per unit. The final net realisation received by unitholders will depend on any payments made in connection with vendor warranties negotiated as part of the sale of Pacific Pines and Benowa Gardens and the actual expenses arising from disposal of the properties and terminating and winding-up the Trust.

² Whilst the independent valuation of Benowa Gardens at 31 December 2019 was \$38.0 million, the Trust NTA reflects an adopted book value equal to the property's sale price of \$40.1 million.

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 31 December 2019.

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

Trust performance

The increase in the total net realisation estimated to be received by unitholders to \$1.02 per unit from \$0.98 per unit at 30 June 2019 is largely due to Benowa Gardens conditionally selling for \$1.35 million (3.5 per cent) above its book value as at 30 June 2019. The book value of Benowa Gardens was reduced to \$38 million as at 31 December 2019 and accordingly the conditional sale reflects a premium of 5.5 per cent above the book value as at that date.

The total return of the Trust for the six-month period ended 31 December 2019 was 4.1 per cent⁵ reflecting the increase in the total net realisation estimated to be received by unitholders.

TRUST PERFORMANCE AT 31 DECEMBER 2019 ⁵			
	6 MTHS	12 MTHS	SINCE INCEPTION
Total return	4.1%*	-2.9%	7.4% p.a.

*The increase in total return is primarily due to Benowa Gardens selling for \$1.35 million above its book value as at 30 June 2019.

The final net realisation and total return received by unitholders will depend on any payments made in connection with vendor warranties negotiated as part of the sale of Pacific Pines and Benowa Gardens and the actual expenses arising from disposal of the properties and terminating and winding up the Trust.

December 2019 quarter distribution

A distribution of income equal to 1.14 cents per unit was declared in respect of the quarter ended 31 December 2019 and paid on 28 February 2020. This is lower than the distribution of 1.31 cents per unit declared for the quarter ended 30 September 2019 reflecting the decrease in the Trust's funds from operations as a result of selling Pacific Pines and Tamworth Homespace.

Future distributions

Pursuant to the Trust's loan facility, the net proceeds from a sale of Benowa Gardens will be first applied to the repayment of debt, after which an interim distribution is anticipated to be paid to unitholders as soon as practicable after settlement. The amount of the interim distribution will be dependent on the amount of sale proceeds remaining after payment of the Trust's liabilities including disposal costs and other Trust expenses, outstanding debt and after provision is made for future Trust winding-up expenses and potential claims on the vendor warranties provided in connection with the sale of Benowa Gardens and Pacific Pines.

In addition to the interim distribution arising from a sale of Benowa Gardens, it is anticipated that a distribution in respect of the March 2020 quarter will be paid to unitholders as usual on 30 April 2020. The March 2020 quarter distribution will be lower than the December 2019 quarter distribution reflecting the decrease in the Trust's funds from operations arising from the sale of Tamworth Homespace and Benowa Gardens.

Subject to any claims on the vendor warranties, it is intended to terminate and wind-up the Trust and pay a final distribution to unitholders as soon as practicable after the expected expiry of the warranty period provided for the sale of Benowa Gardens on or around 20 December 2020, depending on the date on which the property settles.

Debt update

Following the sale of Pacific Pines and Tamworth Homespace, the Trust repaid \$37.1 million of debt resulting in drawn debt decreasing to \$5.52 million and the Trust's loan to value ratio decreasing to 14.5 per cent at 31 December 2019 from 51.2 per cent at 30 June 2019.

Whilst the Trust's loan facility is not due to mature until 30 September 2020, the Trust must repay its remaining debt shortly after the settlement of Benowa Gardens, after which the facility will be terminated without penalty.

Following expiry of the Trust's interest rate swap on 19 December 2019, the Trust's borrowing cost at 31 December 2019 including the margin, line fee and establishment fee decreased to 2.49 per cent per annum from 4.0 per cent per annum at 30 June 2019.

DEBT AT 31 DECEMBER 2019	
LOAN FACILITY LIMIT	\$6.41 million
DRAWINGS	\$5.52 million
TOTAL INTEREST RATE	2.5% p.a.
YEARS TO MATURITY	0.75

Benowa Gardens

Coles executed an amendment of its lease at Benowa Gardens on 13 November 2019. The amendment requires Coles to refurbish its store and extends Coles' lease at the centre by a further 12 years in return for the completion of various lessor works, including the installation of travelators and improving the entries. We have been advised that Coles intends to commence its store refurbishment in late March 2020. The purchaser of the property will be responsible for completion of the lessor works.

Trading at Benowa Gardens during the six months ended 31 December 2019 continued to be negatively impacted by increased competition in the centre's trade area. The associated decline in specialty sales and foot traffic resulted in three additional vacancies during the half year ended 31 December 2019 and a decrease in the centre's occupancy to 84.8 per cent by income from 88.6 per cent at 30 June 2019.

Whilst the centre's independent valuation at 31 December 2019 decreased by \$0.75 million to \$38 million from \$38.75 million at 30 June 2019, the Trust NTA reflects an adopted book value of \$40.1 million equal to the property's conditional sale price.

KEY PROPERTY STATISTICS AT 31 DECEMBER 2019	
BENOWA GARDENS SHOPPING CENTRE	
Trust ownership	100%
Independent valuation date	31 December 2019
Independent valuation	\$38,000,000
Independent valuation rate per square metre	\$6,489
Capitalisation rate	7.00%
Adopted book value ^a	\$40,100,000
WALE by rental income ^b	2.8 years
Major tenant	Coles
Major tenant GLA (% of centre GLA)	1,960 sqm (33%)
Major tenant lease expiry ^c	April 2022
Occupancy by rental income	84.8%
<p>a. The adopted book value included in the Trust's NTA at 31 December 2019 and reported in the Trust's interim financial report for the half year ended 31 December 2019 reflects the purchase price of the property pursuant to sale contracts exchanged on 7 February 2020.</p> <p>b. The centre's WALE by rental income is estimated to increase to 4.7 years assuming the lessor works are completed and the Coles lease is extended by 12 years from 31 December 2020.</p> <p>c. Pursuant to the Coles amendment of lease, the Coles lease expires 12 years after completion of the lessor works.</p>	

Contact details

Your contact details allow us to communicate with you whilst you are a unitholder of the Trust and, most importantly, during the process of selling the remaining property and terminating and winding-up the Trust. Accordingly, we recommend that you review your contact details and elected form of communication for all Trust correspondence and, if necessary, update these online or contact Computershare on 1300 850 505 to arrange any changes.

Unit Registry

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