



Stockland

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



The Trust has performed well over the year to 31 December 2013.

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.

31 December 2013

Highlights

- Total return of 18.1 per cent for the 12 months to 31 December 2013. The improved return was due to a combination of improved rent collections and stronger capital growth.
- The trust distributed 4.8 cents per unit over the 12 months.
- The net tangible assets (NTA) of the Trust increased to 69.05 cents per unit from 62.80 cents per unit over the 12 months to the end of December 2013.
- The aggregate value of the three Trust assets increased by \$400,000 (0.60 per cent) during the six month period to 31 December 2013.

The Trust's performance has been calculated in accordance with Investment and Financial Services Association (IFSA) Standard No. 6. In calculating the capital return, this standard measures the change in NTA from one period to another. On this basis, the capital return in the 12 months to 31 December 2013 was 10.0 per cent. However, the change in aggregate value of the three properties during this period was 3.5 per cent.

Portfolio update

Stronger leasing success across the Trust portfolio resulted in values stabilising for two of the three properties in the portfolio and an improvement in the valuation of the Tamworth property.

At Pacific Pines, the property was 99 per cent occupied as at 31 December 2013 with a weighted average lease expiry of 6.5 years. The value of the property was unchanged at 31 December 2013 (\$22 million). Coles is rumoured to have recently acquired a 1 hectare site some 3km from Pacific Pines for a supermarket and a number of speciality stores. The development and subsequent opening of this centre may negatively impact the performance of Pacific Pines in the medium term.

Tamworth Homespace is now 100 per cent occupied as a result of strong asset management and new leasing deals. New tenants at 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 2016.

The improved tenancy profile and higher rental income resulted in a \$400,000 increase in value to \$14.3 million as at 31 December 2013.

At Benowa Gardens the occupancy rate for the centre was 97 per cent as at the end of 2013. The valuation remained unchanged at \$31.5 million as at 31 December 2013. A competitor is proposing to develop a supermarket with additional specialty shops on a nearby site. Should the redevelopment of this site occur it is likely to negatively impact the performance of Benowa Gardens. This development is in addition to the proposal in the Pacific Pines trade area discussed above.

Debt update

The Trust's debt facility with National Australia Bank which matured on 31 December 2013 has been successfully refinanced for a further 12 months. The interest rate as at 31 December 2013 after transaction costs was 4.2 per cent per annum, compared to the interest rate in the prior period of 5.55 per cent per annum.

The Trust's loan to valuation ratio (LVR) as at 31 December 2013 was 58 per cent, below the 65 per cent maximum allowed by the Trust's financier.

UNIT PRICE
\$ PER UNIT

0.69

12 MONTH
TOTAL
RETURN
%

18.1

LOAN TO
VALUATION
RATIO
%

58

PROPERTY
VALUE
\$M

67.8

TRUST PERFORMANCE*

PERFORMANCE	6 MTHS (%)*	12 MTHS (%)*	INCEP- TION (%)* P.A.
Income return	3.6	8.1	7.0
Capital return	1.8	10.0	-5.1
Total return	5.4	18.1	1.9

* Calculated in accordance with IFSA Standard No. 6.

DEBT*	\$M
LOAN FACILITY	\$40.00
DRAWINGS	\$39.35
INTEREST RATE	4.2%
YEARS TO MATURITY	1.0

* As at 31 December 2013

Fund strategy

At the unitholder meeting held on 30 April 2012, unitholders voted not to authorise the sale of the assets of the fund, and confirmed the Responsible Entity should continue operating the fund as a going concern. Unitholders also voted in favour of the Responsible Entity convening another meeting at a time between 2012 and 30 June 2014.

We are currently preparing for this meeting and we will contact you in due course.

Economic update

The international economy has improved slightly over the second half of 2013. In the US, consumer sentiment and private consumption has increased, unemployment continues to fall, and house prices and builder confidence remain high. Europe has also improved, with increased consumption, investment, and a stabilising unemployment rate. In China, economic growth has been relatively stable, but is expected to moderate as financial conditions are tightened. This is expected to be mitigated by improved export demand from China's major trading partners.

Domestically, the transition from mining to non-mining growth is underway, with most domestic indicators looking positive.

Retail sales have picked up, strength in the established housing market is supporting residential construction, and business confidence and conditions are both positive for the first time in 3 years. The unemployment rate is now sitting at circa 6.0 per cent and is expected to be under stress in the near term. Interest rates are expected to remain stable for the remainder of 2014.

Source: Stockland Research

Market update

Neighbourhood/supermarket based shopping centres as an asset class has been growing in popularity over recent years with investors seeking stable returns through shopping centre properties that offer convenience and non-discretionary retailing.

A number of significant portfolio sales have occurred in recent years including the acquisition of a 50 per cent share in the Coles Group property portfolio by ISPT as well as the creation of Shopping Centres Australia in 2012 which holds a number of Woolworths properties. Charter Hall has also been an active buyer of larger supermarket based shopping centres.

Yields for supermarket based shopping centres vary depending on the quality of the property but are generally in the order of 8 per cent. More highly sought after and dominant centres that include a key national supermarket tenant, are easily accessible and have limited exposure to current or future competitive supermarket based developments will typically be transacted at a yield lower than 8 per cent.

Bulky goods/homemaker centres as an asset class has experienced significant growth over the past decade due to an increase in population and housing in Australia. Over recent years, there has been a slowdown in the construction of new homemaker/bulky goods centres, although development of individual stores, particularly in the hardware segment (Bunnings Warehouse and Masters) has continued to result in a new supply of bulky goods/homemaker floor space.

KEY PROPERTY STATISTICS AS AT DECEMBER 2013

	BENOWA GARDENS SHOPPING CENTRE	PACIFIC PINES TOWN CENTRE	TAMWORTH HOMESPACE	TOTAL/WEIGHTED AVERAGE
Independent valuation	31 Dec 2013	31 Dec 2013	31 Dec 2013	
Valuation	\$31,500,000	\$22,000,000	\$14,300,000	\$67,800,000
Value rate per sqm	\$5,462	\$3,987	\$1,096	
Interest	100%	100%	100%	
Cap rate	8.50%	7.75%	11.00%	
WALE*	4.3	6.5	3.8	4.8
Major tenant	Coles	Woolworths	The Good Guys	
GLA	1,960	3,541	2,404	
Lease expiry	Apr 2022	Oct 2023	Mar 2017	
Occupancy	97%	99%	100%	

* By income.

Recently, there has been more positive news in the reporting of sales from listed bulky goods retailers, including:

- Wesfarmers reported results in mid-February 2014, with the home improvement business, comprising Bunnings, recording a sales increase of 10.6 per cent with store on store sales growth being 7.3 per cent. Similarly, Officeworks reported a 4.6 per cent increase in sales compared with the previous year.
- Fantastic Holdings comprising Fantastic Furniture, Dare Gallery, Plush and Le Cornu, reported a sales decline of 3.7 per cent for the first half. This was stated to be a reflection of product discounting and increased promotional activity.

Overall, the above results indicate a more positive environment, although with some mixed performance. Most chains, however, are now looking at potential new store opportunities after a period of consolidation over the past five years.

Recent yields for bulky goods/homemaker shopping centres have been listed upwards of 9.5 per cent, although with lower yields for free-standing Bunnings outlets. Some of the key purchasers of bulky goods assets have been private groups such as BB Capital and Arcadia, syndicators such as Sentinel and Primewest and smaller private investors. In terms of hardware stores, the Bunnings Warehouse Trust, Charter Hall and Telstra Super have bought a substantial number of Bunnings stores. Most national real estate investment trusts have been sellers of bulky goods centres over the past five years.

Source: Location IQ

Unit Registry

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