ASX/Media Release

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STOCKLAND 3Q19 UPDATE: RESULTS IN LINE WITH EXPECTATIONS

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Group highlights:

- Continued improvement in quality of our portfolio, with the divestment of $284.5m of non-core retail town centre assets, on track to achieve $400m target within twelve months
- On track to settle over 6,000 residential lots for the full year despite challenging market conditions
- Residential sales have declined and are expected to remain weak over calendar year 2019
- Solid comparable specialty retail sales growth per square metre of 3.8% for the year to 31 March 2019
- Retail leasing conditions remain difficult with negative rental growth associated with remixing
- Strong leasing results for Workplace & Logistics, maintaining high occupancy and progressing our development pipeline
- Securities buy-back progressing well, completed $169m of $350m target at an average discount to NTA of 8%
- In line with our update at the half year, on track to achieve guidance of around 5% FFO growth per security for FY19 which is at the lower end of our original range, reflecting weaker market conditions. This assumes no material deterioration in current market conditions.

Stockland's third quarter market update highlighted that Group results remain on track for FY19 in a challenging trading environment.

Managing Director and CEO Mark Steinert said: "We've achieved residential settlements and net deposits broadly in line with expectations this quarter, solid retail sales and strong leasing and development activity in our Workplace and Logistics portfolio. This is being countered by weak residential sales and negative retail rent reversions.

"We are delivering on our strategic priorities, having achieved a cumulative $284.5 million of non-core retail town centre divestments, including the recent sale of Stockland Kensington in Queensland, and this gives us confidence for the delivery of our $400 million target.

"We are actively progressing capital partnering opportunities across all sectors represented in our business, through ongoing engagement with a range of potential domestic and international partners.

Mr Steinert continued: "We maintained our disciplined capital management approach, with good progress on our securities buy-back, which will be accretive to earnings. We have completed $169 million of our $350 million buy-back target.

"We also secured new long-term debt during the period at attractive interest rates, totalling A$551 million across both the Australian and US capital markets. The 5 year domestic medium term note was issued at a coupon of 3.3 per cent and the 10, 12 and 15 year USPP weighted average spread above BBSW was +170 basis points, both pre-fees.

"Our strong financial position and stable A- / A3 credit ratings enable us to continue diversifying our funding sources across global capital markets."

Commercial Property

Mr Steinert said: "We have a strong focus on building resilience of income across our national portfolio. We've taken a clear view of core and non-core assets, defining our core assets as leading town centres with strong and growing trade areas with limited competition, and where we have the opportunity to enhance the asset to generate sustainable income growth over time.

"We've seen continued solid sales results across our retail town centres, reflecting the success of our remixing strategy and focus on health, services, lifestyle and entertainment to drive foot traffic. Comparable speciality sales are up 3.8 per cent for the year to 31 March 2019 at $9,253 per square metre.

"As flagged at the half, while we continue to experience negative retail income growth, we have a clear focus on stabilising income. We are also rolling out a place making strategy across our portfolio to add value to our community offering and drive more foot traffic into our centres.

"During the quarter, we commenced construction of the new $33 million Baringa Town Centre at our Aura community on the Sunshine Coast, which will cater for the growing population in the area and incorporate a number of lifestyle, dining and health offerings to meet local customer needs."

Commenting on the Workplace & Logistics portfolio, Mr Steinert said: "We have experienced strong leasing activity across our Workplace and Logistics portfolio, with 376,000 square metres leased for the financial year to date and high occupancy levels, currently sitting at 96 per cent.

"We are making good progress delivering our $740 million workplace and logistics development pipeline, which will underpin the future growth of the portfolio to a targeted 25-35 per cent of our total assets in the next five years. We completed the 18,400 square metre Willawong Distribution Centre in Brisbane during the period.

"We are actively working on our planning application for the new Melbourne Business Park with Mount Atkinson Holdings, adjacent to our residential community in Melbourne's west. This partnership will see the delivery of one of the State's largest new logistics precincts, with construction likely to commence later in 2019 and good demand expected from both owner occupiers and tenants.

“We are also well underway with development of stage one of our 14,100 square metre Yatala logistics facility in Brisbane and we commenced the 30,400 square metre KeyWest project in Truganina, Melbourne during the period,” said Mr Steinert.

Communities

Residential

Mr Steinert said: “Sales for the quarter were 26 per cent below the second quarter and are expected to remain weak for calendar year 2019, with risk to the downside given current challenging market conditions, reduced credit availability and buyer uncertainty due to the upcoming Federal election.

“We remain on track to complete over 6,000 residential settlements over the full year, with the anticipated settlement skew to the second half, and an operating profit margin over 18 per cent. Cancellation rates have increased moderately on the back of uncertainty created by current market conditions, however default rates have remained stable at around 3 per cent.

“We continue to see demand for our product from our core market of first home buyers and owner-occupiers which make up 50 per cent and 84 per cent of our customer base respectively, as we focus on providing affordable, liveable and sustainable homes in communities connected to infrastructure and jobs.

“Across the country we have reasonable visibility of earnings over the medium term, with over 2,800 contracts on hand for settlement from FY20, but we expect challenging conditions to continue throughout 2019.”

Retirement Living

Mr Steinert said: “During the quarter, we saw continued improvement in development sales in response to new high-quality product choice and re-pricing strategies. Established village net reservations were down marginally for the period, but continue to reflect lower volatility in the retirement village sector in comparison to the established housing market.

“We are continuing to progress discussions for a capital partnership for our retirement living business, and are pleased with initial interest from investors,” said Mr Steinert.

Outlook

Mr Steinert concluded: “As announced in February, we expect FFO growth per security to be around 5 per cent for the full year, at the lower end of our guidance range reflecting weaker market conditions, and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18, assuming no material deterioration in current market conditions.

“Our ongoing commitment to creating liveable, affordable and sustainable communities, vibrant retail town centres and quality workplace and logistics precincts across the country will continue to underpin our business over the medium to long term.”

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