Stockland

ASX/Media Release

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Stockland 3Q23 update reflects strong operational performance from diversified platform. FY23 guidance maintained.

Key highlights

- Strong operational metrics achieved across the Commercial Property portfolio, with 98%[1] rent collection for 3Q23 and high occupancy levels maintained
- Leasing spreads accelerated to 20.5%[2] for Logistics and 2.9%[3] for Town Centres for the financial year-to-date
- Essentials-based Town Centre portfolio delivered comparable total sales growth of 15.9%[4,5] and comparable specialty sales growth of 21.8%[4,5] on an MAT basis, with occupancy costs declining to 14.8%[6]
- On track to deliver ~$1.2bn[7] of Logistics developments over FY23 and FY24, with targeted FY23 completions of more than $500m[7] now 92% pre-leased
- Construction is progressing on M_Park Stage 1 (NSW), in partnership with Ivanhoé Cambridge, with an expected end value of over $700m[7]
- Settled ~$50m[8] non-core retail asset disposal (Stockland Riverton, WA) during the quarter
- Masterplanned Communities (MPC) net sales of 1,049, in line with expectations, with enquiries recovering to pre-COVID-19 levels
- Maintaining FY23 target of ~5,500 settlements in MPC, with a significant settlement skew (~3,000 lots) to 4Q23
- 3Q23 Land Lease Communities (LLC) net sales of 50 homes, reflecting the staging of releases to allow production to catch-up with demand
- Strong operational metrics in the LLC established portfolio, with 100% occupancy and rent collection rates as at 31 March 2023
- Balance sheet further strengthened, with additional $600m of hedging and A$250m medium-term note (MTN) issuance
- Liquidity expected to be ~$1.4bn at June 2023, providing resilience and flexibility to take advantage of opportunities

[1] Rent collection rates across the Commercial Property portfolio up to 31 March 2023 on March financial year-to-date billings.
[2] On new leases and renewals negotiated (executed & under HOA) over FY23 YTD.
[3] Re-leasing spreads for stable portfolio on an annualised basis, FY23 YTD.
[4] Previous corresponding period impacted by COVID-19 trading restrictions over July 2021 - October 2021.
[5] Comparable basket of assets as per SCCA guidelines, which excludes assets which have been redeveloped within the past 24 months. Excludes the Mobile Phones category, due to reporting changes by one retailer resulting in sales data being not comparable.
[6] Occupancy cost reflects stable assets, adjusted to reflect tenants trading more than 24 months.
[7] Forecast value on completion, subject to relevant approvals. Workplace includes M_Park Stage 1 at 100% share.
[8] Represents Stockland's 50% share of Stockland Riverton, WA.

3Q23 Summary

Managing Director and Chief Executive Officer, Tarun Gupta said: "Stockland has delivered a strong operational result for the quarter, again demonstrating the strength of our diversified portfolio against a backdrop of continued macroeconomic uncertainty.

"We achieved strong operational performance across our Commercial Property portfolio, including accelerated rental growth in our rapidly expanding Logistics portfolio, and double-digit sales growth in our Town Centres portfolio while maintaining positive leasing spreads."

"The Masterplanned Communities business showed continued improvement over the quarter, with 3Q23 net sales of 1,049 and enquiries returning to pre-COVID-19 levels. In Land Lease Communities, upcoming project launches are supporting elevated enquiry levels, demonstrating ongoing demand for land lease community living, while net sales volumes continue to reflect the staging of releases to allow production to catch up with demand."

Commercial Property

Logistics

The Logistics portfolio is well positioned to benefit from strong tenant demand, with a WALE of 3.4 years[9] providing opportunities to capture strong market rent growth.

The portfolio achieved releasing spreads of 20.5%[10] on new leases and renewals negotiated over the financial year-to-date, while maintaining high occupancy levels of 99.7%[9,11] and a rent collection rate of 100%[11] over the quarter.

Stockland continues to progress its $6.4bn[12] Logistics development pipeline. $1.2bn[12] of active developments are currently underway, with FY23 targeted completions of more than $500m[12] now 92% pre-leased.

Workplace

The majority of Stockland's Workplace portfolio is currently being positioned for future development, which is reflected in the portfolio's occupancy of 93.9%[9,11] and WALE of 4.3 years[9]. During the quarter, rent collection rates were maintained at 99%[11].

Stockland is maintaining optionality over its $5.8bn[12] Workplace development pipeline while adding value. Construction is progressing at the M_Park Stage 1 project (Macquarie Park, NSW), in partnership with Ivanhoé Cambridge, with pre-leasing now at 66%. Development design is progressing for Affinity Place (North Sydney, NSW).

Town Centres

Stockland's Town Centres portfolio continues to deliver strong operational and financial performance, underpinned by its ~75% weighting (by sales) to essentials-based categories.

On a MAT basis, total comparable sales grew by 15.9%, with comparable specialty sales up by 21.8%[13,14].

For the March quarter, total comparable sales grew by 10.9% and comparable specialty sales grew by 9.0%, noting that the previous corresponding quarter was not impacted by COVID-19 trade restrictions[14].

Relative to the pre-COVID comparable quarter in 2019, total comparable sales were 17.3% higher in 3Q23, while comparable specialty sales were 13.4% higher[14].

[9] By income. Workplace at 3Q23 excludes assets being prepared for development, Walker Street Complex and 601 Pacific Highway.
[10] Reflects executed leases and leases under HOA for FY23 FYTD.
[11] At 31 March 2023.
[12] Forecast value on completion, subject to relevant approvals. Workplace includes M_Park Stage 1 at 100% share.
[13] Previous corresponding period impacted by COVID-19 trading restrictions over July 2021 - October 2021.
[14] Comparable basket of assets as per SCCA guidelines, which excludes assets which have been redeveloped within the past 24 months. Excludes the Mobile Phones category, due to reporting changes by one retailer resulting in sales data being not comparable.

Leasing spreads remained positive over the quarter and have averaged 2.9%[15] for the financial year-to-date (versus 2.5% for 1H23). Rent collection and portfolio occupancy remains high at 97%[16] and 99.4%[17] respectively.

The portfolio's strong sales performance has resulted in a further decline in occupancy costs, to 14.8%[18] (versus 15.2% at December 2022).

Communities

Masterplanned Communities (MPC)

Stockland's MPC business achieved net sales of 1,049 in 3Q23, reflecting quarter-on-quarter improvement.

Enquiries returned to pre-COVID-19 levels in the quarter, and conversion of enquiries to sales volumes is expected to improve as the interest rate outlook stabilises.

Default rates[19] remain below historical levels, albeit up over the quarter.

The rate of construction cost escalation continues to moderate as supply chain constraints ease. We continue to monitor the financial health of homebuilders and work cooperatively with our builder partners through challenging conditions to mitigate production and delivery risk.

The MPC business ended the period with 6,443 contracts on hand at ~12% higher average pricing vs 1H23[20], providing good visibility into FY24.

Stockland's FY23 settlement targets are maintained at ~5,500 settlements, with a significant settlement skew to 4Q23. Approximately 3,000 settlements are expected to complete in 4Q23. The FY23 development operating profit margin is expected to be ~26%, in line with previous guidance.

The commitment between Stockland and Mitsubishi Estate Asia (MEA) to invest in masterplanned communities is expected to take effect in mid-2023.

Land Lease Communities (LLC)

Stockland's LLC platform delivered strong operational performance in 3Q23. Over the quarter the established portfolio maintained high occupancy and rent collection rates at 100%[21], and average rental growth of 6.3%[22] vs FY22.

3Q23 net sales of 50 homes reflects a slowing of releases in order to allow production to catch up with purchaser demand.

Enquiry levels were supported by upcoming project launches at Stockland Halcyon Evergreen, VIC and Stockland Halcyon Horizon[23], VIC, demonstrating ongoing demand for over-50s lifestyle communities development product.

Stockland continues to focus on activating the development pipeline, with seven new communities expected to launch by the end of FY24[24].

As at 3Q23, the business had 437 contracts on hand at ~18.2% higher average pricing vs 1H23[20]. For FY23, the LLC business continues to target development operating profit margin within the range of 22-27% and settlements of ~350 homes.

[15] Re-leasing spreads for stable portfolio on an annualised basis, FY23 YTD.
[16] Rent collection rates across the portfolio up to 31 March 2023 on March financial year-to-date billings.
[17] Occupancy across the stable portfolio based on signed leases and agreements at 31 March 2023.
[18] Occupancy cost reflects stable assets, adjusted to reflect tenants trading more than 24 months.
[19] 12-month rolling average default rate vs 10-year average default rate.
[20] Average price per lot (MPC) or per home (LLC) of contracts on hand vs 1H23 settlements.
[21] As at 31 March 2023.
[22] Average rental increases on stabilised portfolio, effective 1 July 2022.
[23] Formerly Armstrong Creek.
[24] Subject to relevant approvals, planning and meeting the partnership's return requirements.

FY23 Outlook and guidance

Managing Director and Chief Executive Officer, Tarun Gupta said: "Stockland is on track to deliver on our FY23 guidance. Our focus on operational excellence continues to deliver strong performance across our diversified portfolio, and our strategic initiatives provide multiple drivers of future growth across the platform."

"Importantly, the strength of our balance sheet and liquidity position provides resilience in the current macroeconomic environment and flexibility to take advantage of the right opportunities that may arise in the near term," said Mr. Gupta.

The FY23 FFO per security guidance range is maintained at 36.4 to 37.4 cents on a pre-tax basis, in line with prior guidance provided in August 2022. Tax payable in FY23 is expected to be at the lower end of the guidance range of 5-10% of pre-tax Group FFO, with the benefit of some remaining carry forward tax losses.

Distribution per security for the full year is expected to be within target payout ratio of 75% to 85% of FFO.

Current market conditions remain uncertain. All forward looking statements, including FY23 earnings guidance, remain subject to no material deterioration in current market and production conditions.

Ends

This announcement is authorised for release to the market by Ms Katherine Grace, Stockland's Company Secretary.

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