



11 February 2009

## ASX/Media Release

### STOCKLAND DECEMBER 2008 HALF YEAR RESULTS

- Operating profit before inventory write-downs \$286.9 million
- Operating profit after inventory write-downs \$127.9 million
- Earnings per security before inventory write-downs 19.0 cents
- Earnings per security after inventory write-downs 8.5 cents
- Dividend/distribution per security 17.0 cents
- Gearing ratio (Debt / Total Tangible Assets) 31.0%
- Statutory accounting loss, including property revaluations and non-operating items \$726.0 million

Stockland today announced an operating profit of \$127.9 million after inventory write-downs for the six months to 31 December 2008.

Stockland Managing Director Matthew Quinn said: "Our first half operating profit is a good result, given the market conditions we face.

"We are actively managing the impact of current market dynamics with a strong focus on risk management, capital management and cost efficiencies.

"While we will continue to prudently manage the business, we are also focused on capitalising on opportunities to strengthen our business and ensure we maintain our position as Australia's leading diversified property group."

Stockland's 1H09 statutory accounting result is a loss of \$726.0 million. This includes a range of non-cash items, which move from year to year and are not directly related to how Stockland's operating businesses are performing. The non-cash items include:

- (\$388.9) million – Fair value adjustments of investment properties
- (\$192.5) million – Impairment and net loss on sale of non-current assets
- (\$165.3) million - Fair value adjustments of financial instruments and foreign exchange movements

## **CAPITAL MANAGEMENT AND LIQUIDITY**

Stockland has maintained its sound capital position:

- Gearing: Debt / Total Tangible Assets (D / TTA) - 31.0%  
Total Liabilities / Total Tangible Assets (TL / TTA) - 38.1%
- Headroom within debt covenants of \$1.6 billion
- \$0.6 billion of committed available facilities in place at 31 December 2008 and \$0.8 billion at 31 January 2009
- Average weighted debt maturity of 5.8 years

Stockland continues to effectively manage its refinancing risk, with all necessary debt refinancing for FY09 completed. Only \$18 million is repayable in calendar 2009 and the next maturity of \$200 million is not due until June 2010.

A range of additional capital management initiatives is in place to ensure the Group has significant liquidity including asset sales and the deferral of capital expenditure.

Given the higher cost and scarcity of capital, Stockland has reviewed its development pipeline. All uncommitted development expenditure in Commercial Property, Apartments and the UK has been deferred until markets improve, although work will continue to secure development approvals. Such deferrals result in minimal additional holding costs, as many projects are existing income producing properties.

Stockland continues to actively manage its portfolio, with a total of \$220.7 million in non-core asset sales achieved in 1H09. Since balance date, a further \$85.5 million of non-core asset sales have been settled.

Stockland has good coverage of Residential Communities profits in the next three years from existing projects. Restocking of Residential Communities inventory has therefore been significantly scaled back, further boosting the Group's capital position.

## **DIVIDEND/DISTRIBUTION**

Stockland's policy is to effectively pay out 100% of Trust operating income and 90% of Corporation operating profits.

As previously announced, Stockland's current distribution policy will remain in place for FY09. The policy for FY10 and beyond is currently being reviewed and it is likely that Stockland will move to a model which enables it to more closely align its distributions with its Adjusted Funds From Operations (AFFO).

## OPERATIONAL RESULTS

### Commercial Property

#### **Office and Industrial: operating profit \$136 million**

- Comparable net rental income growth of 4.1%
- High portfolio occupancy of over 96%
- Only 10% of leases expiring in 2H09
- 7.3% average capitalisation rate in Office, a 55bps increase since 30 June 2008; 8.1% average capitalisation rate in Industrial, a 45bps increase since 30 June 2008.
- 1H09 asset sales of \$140 million

Portfolio rental growth continues to be underpinned by fixed review lease structures, but is expected to come under pressure as office markets soften and incentives to lease vacant space increase. A secondary sub-lease market is growing, particularly in Sydney and Melbourne.

Stockland's office tenancy mix is strong with total rent comprising 22% government tenants, another 30% ASX-200 companies and 17% major professional services and multinational firms.

#### **Retail: operating profit \$121 million**

- Comparable net rental income growth of 5.8%
- Only 19 shops vacant and no significant arrears
- Specialty store occupancy costs remain relatively low at 12.7% of sales
- 6.8% average capitalisation rate, a 50bps increase since 30 June 2008
- 1H09 asset sales of \$81 million

Population growth has continued to support retail sales growth and December figures were boosted by the Federal Government's stimulus package. However, it is evident that diminishing consumer confidence is impacting retail spend, especially for discretionary and luxury goods.

Stockland's retail portfolio remains well placed in the current market, with its centres weighted towards non-discretionary food and general merchandise sales.

Vacancy levels are expected to rise as retailer margins come under pressure due to heavy price discounting and the declining exchange rate.

### ***Property values***

- Overall weighted average capitalisation rate for Office, Industrial and Retail moved from 6.7% to 7.2%
- Rental income growth partially offset capitalisation rate movements in the first half
- Capitalisation rates are expected to soften further, but Stockland's balance sheet and capital position are well placed to absorb the impact.

### **Residential**

- Previously flagged inventory write-downs of \$150 million before tax in the Communities and Apartments businesses

### ***Communities: operating profit \$77 million***

- 1,434 lots settled
- Net margin of 22%
- Five projects launched, with 42 currently active

The Federal Government's First Home Owners Boost (FHOB) and recent interest rate cuts have had a material positive impact on sales at the affordable end of the market, with first home owners now comprising 65% of Stockland's total residential sales volumes.

Stockland flagged that there would be a skew in profits to the second half due to weak single lot sales in the early months of 1H09, following the March 2008 interest rate rise. Momentum has increased significantly in the last three months and in January 2009 Stockland achieved 448 sales – a 34% increase over January 2008.

Stockland announced in August 2008 that over 30% of its Residential gross margin in FY09 would come from super lot sales, which includes bulk sales and project disposals. While work continues on a number of super lot sales, it will be difficult to meet targets given current market conditions.

### ***Apartments: operating loss \$5 million***

- 59 units settled
- Construction of current projects on track with good level of pre-sales
- Positive cashflows to be generated over the next two years

The operating result for Apartments is below expectations, with performance impacted by the further deterioration of the high-end residential market.

Construction progress on current projects remains on track, with no new apartment projects to commence until markets improve. The Apartments business will generate positive cashflows in the next two years and Stockland remains confident of a good profit contribution in FY10 and FY11 as projects reach completion.

***Retirement Living: operating profit \$28 million***

- 62 new units sold
- 99% occupancy
- 8.7% average price growth from existing villages
- 104 existing units turned over
- 103 units under construction, with 44% pre-sold

Retirement Living remains a key growth platform and continues to perform well, with solid price growth from existing villages.

**Stockland UK**

- Operating loss before inventory write-downs \$0.3 million
- Operating loss after inventory write-downs \$75.2 million

Market conditions in the UK continue to deteriorate, and the Group's focus is on de-risking its wholly owned projects and joint ventures. No significant new capital will be invested in the UK business in the short term.

Stockland's UK operations make up around 3% of the Group's asset base.

**STRATEGIC STAKES**

***GPT – 12.0% - \$493.0 million notional exposure***

Around 8% of Stockland's exposure was refinanced in the first half into an equity derivative structure, although the company retains voting rights. The remaining 4% is held off balance sheet through a cash-settled equity swap. Stockland's GPT exposure increased from 12.0% to 12.7% post 31 December to return the exposure to the pre-retail rights issue level.

***FKP – 15% - \$26.6 million carrying value***

Stockland retains an ongoing first right of refusal over FKP's retirement assets.

***Aevum – 14.3% - \$18.1 million carrying value***

Stockland has a passive stake in Aevum, with no current intention to increase its investment.



## EARNINGS OUTLOOK

Stockland's current Residential single lot sales rate is healthy due to the strength of the first home buyer segment, and at current sales rates full year single lot earnings targets will be achieved. However super lot sales forecasts are unlikely to be met with downside profit risk of up to \$50 million after tax.

In the Commercial Property business, there are no major lease expiries, high quality covenants are in place and downside risks to earnings targets are minimal.

The UK business remains on track for a break-even result before write-downs.

FY09 EPS guidance of 35c is unlikely to be met given the downside risk from super lot sales, with a potential impact of up to 3.2c. Nevertheless, distribution/dividend guidance of 34c is unchanged as this is approximately the minimum amount that Stockland Trust can pay out under Trust taxation legislation.

"We have prudently managed our capital position which means our balance sheet, debt expiries and available funds are in good shape," Mr Quinn said.

"In our operating businesses, we still have earnings momentum with most of our profits underpinned by lease rental contracts and pre-sales. We are capitalising on the opportunities that are available such as the first home buyer segment, where we have high quality, affordable product on the ground and strong sales and marketing campaigns in place.

"While we are closely managing our business through the downturn, we will also take advantage of cyclical opportunities to increase our weighting to recurring income and maintain our position as Australia's leading diversified property group."

*Stockland's 2009 half year results presentation will be webcast via [www.stockland.com.au](http://www.stockland.com.au) on Wednesday 11 February at 11.30am.*

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