ASX/Media Release

Stockland

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STOCKLAND ON TRACK WITH SOLID FIRST QUARTER RESULTS

Ahead of its Annual General Meeting, to be held in Sydney today, Stockland released its first quarter market update for the FY20 period, with an improvement in residential sales, an increase in comparable retail MAT growth, continued up-weighting in logistics and progress in its commercial property development pipeline.

Stockland Managing Director and CEO Mark Steinert said the company has maintained its disciplined focus on strategy execution: “We’ve had a solid start to the year. Our residential communities business recorded its strongest quarterly result this calendar year, finishing moderately above expectations with 1,149 net deposits taken and 4,245 contracts on hand. However, we expect a greater Communities profit skew of around 65 per cent to the second half this year.

“The residential market cycle has improved, particularly in Sydney and Melbourne, and the south-east Queensland market is steadily improving. We remain on track to deliver over 5,000 settlements in FY20, including around 500 townhomes.

“FY21 revenue is expected to benefit from the residential market recovery and five new communities driving increased lot settlement volumes above the mid-point of our through the cycle range, together with potential price growth and cost savings.

“The Sydney market was particularly strong in September, however our overall default rate remains elevated due to a portion of contracts extended from the fourth quarter of FY19 not settling, and the settlement volume for the quarter being seasonally lower. The number of defaults is moderating and the default rate is expected to reduce over the balance of the financial year.

“Around 80 per cent of our residential customers are owner occupiers, and the current low interest rate environment, improving credit conditions and government incentives are driving buyer confidence. Our strong brand and reputation for quality, liveable, affordable communities underpins our results, as customers are increasingly purchasing from established companies they can trust.

“This quarter, we successfully launched our new townhome project, The Parks at Red Hill in Canberra, and have also commenced construction on our Altona North townhome project in Melbourne. We also continue to pursue opportunities to restock our pipeline with projects projected to achieve returns above our hurdle rates.

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"In line with expectations, our retirement living business achieved 215 net reservations for the quarter, representing a 9.7 per cent uplift on a like-for-like basis on the previous corresponding period, and reflective of the timing and quality of development completions and the improving housing market.

"We remain focussed on reshaping our retirement living portfolio by selling non-core villages; investing in supporting resident satisfaction and the customer journey; and progressing our opportunities in land lease development, with development applications to be lodged for two projects in Queensland in the next month.

"While we continue to explore capital partnering opportunities in our retirement living business, a transaction in this sector is likely to take considerable time to complete and our focus continues to be on driving efficiency and improving returns in the portfolio."

Mr Steinert said: "I'm proud that our customers are some of the happiest retirement living residents in Australia. We have achieved our highest resident satisfaction score in 10 years, with overall happiness rated at 8.6 out of 10."

Mr Steinert highlighted Stockland's approach to community development and liveability as key differentiators: "The benefits of our diversified business model are showcased at our Aura project on the Sunshine Coast, where the recently delivered Baringa Town Centre has helped generate a noticeable increase in enquiry for residential homes at Aura since it opened in August. Curated, sustainable retail town centres that are locally tailored give us a clear competitive advantage, and become the heart of our communities."

Stockland's retail town centre portfolio delivered improved sales reflecting remixing to growth categories and reduced supply of new retail space in our trade areas, as the portfolio further rebalances towards non-discretionary and low-discretionary spend.

"We achieved comparable MAT growth of 2.6 per cent for the period, including 3.5 per cent growth in majors, driven by the strength in supermarket sales. We also achieved comparable specialty sales approximately nine per cent above the Urbis benchmark in the 12 months to 30 September 2019, at $9,462 per square metre.

"Over the coming months we will finalise the remaining settlements from $505 million of exchanged non-core retail divestments, and will continue to focus on improving future income resilience by ensuring rents are sustainable; through repositioning and placemaking initiatives; and remixing tenancies to reflect consumer trends around convenience and experience. We reiterate our expectation that overall retail town centre comparable income will grow moderately through FY20 and improve further in FY21.

"The workplace and logistics sector continues to drive the growth of our commercial property portfolio as we focus on development, and acquisitions in line with our strategy. Our development pipeline now totals over $2.5 billion, and includes exciting development opportunities within our existing portfolio at Melbourne Business Park in Truganina in Melbourne, North Sydney, Macquarie Park and the Sydney CBD.

"Workplace occupancy remains high, at 99 per cent for our Sydney assets, and enquiry is improving in Perth. Portfolio weighted average lease expiry remains stable at 3.8 years.

"Following the acquisition of the remaining 50 per cent of Piccadilly Centre in August, putting us in a good position to progress our development plans, we also recently reached a heads of agreement with our long-term tenant Optus for the renewal of their lease at Macquarie Park in Sydney.

"Our logistics portfolio has almost doubled in size since December 2013, and continues to perform strongly as we up-weight our exposure to this asset class through development and strategic acquisitions.

"Last week we entered a conditional agreement with the Fife group to purchase two income-producing logistics assets in Brisbane's prime industrial zone, at Carole Park and Richlands with an end development value of approximately $140 million on a yield of around 6 per cent, including an 18 month rent guarantee on any unlet space. We also entered into a joint venture with the Fife group to consolidate current landholdings in western Sydney for future development of a $500 million, 71 hectare logistics estate, subject to zoning and development approval.

"This strategic acquisition will build on the eight existing logistics assets we have in the western Sydney area, positioning us to leverage the investment boom generated by the Western Sydney Airport development," Mr Steinert said.

Stockland has maintained its position as one of the world's most sustainable real estate companies as recognised by the Dow Jones Sustainability Index and the Global Real Estate Sustainability Benchmark.

Mr Steinert said: "We continue to outperform the Australian National Norm for employee engagement. This year we were recognised as an employer of choice for the fifth year in a row by the Workplace Gender Equality Agency, and earlier this month we were named as one of the world's leaders in gender equality, coming in sixth on Equileap's 'global top 100' list of the world's most gender-equal companies."

Stockland reaffirmed its outlook for the period, noting that while current market conditions remain mixed, fundamentals are positive with steady employment growth, record low interest rates, recent tax cuts and high investment in infrastructure. Some uncertainty remains, being driven by a number of factors including constrained credit availability, weak consumer sentiment and global trade conditions.

Mr. Steinert continued: "As we announced at our full year results, we forecast flat FFO per security in FY20, noting that market conditions remain variable although our confidence in the pace of recovery in the residential market has improved. Once again, we expect a significant residential profit skew to the second half.

"Distributions per security will also be flat, and our distribution payout will be at the bottom end of our 75-85 per cent target ratio.

"We remain focused on creating Australia's most liveable and sustainable communities, owning and managing leading retail town centres in strong trade areas, and continuing to grow our workplace and logistics portfolio," Mr Steinert said.

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