

21 February 2023

Stockland 1H23 result demonstrates strength of diversified platform

Financial results for the six months ended 31 December 2022 (1H23)

1H23 highlights

- Funds from operations¹ (FFO) of \$353m, up 0.7% on 1H22 reflecting a significant 2H skew
- FFO¹ per security of 14.8 cents, up 0.7% on 1H22
- Net tangible assets (NTA) of \$4.31 per security, in line with 30 June 2022
- Strong operational metrics across the Commercial Property portfolio: comparable FFO growth of +3.2%²; leasing spreads of +2.5%³ for Town Centres and +19.6%⁴ for Logistics
- On track for ~\$1.2bn⁵ of Logistics development completions over FY23 and FY24; targeted FY23 completions ~92% pre-leased
- Capital Partnerships established in FY22 providing new, high-quality Management and Development income streams
- Masterplanned Communities (MPC) settlement volumes of 1,872⁶ lots impacted by extreme wet weather; FY23 settlement target of approximately 5,500 lots, with sales volumes improving during 1H23
- Strong contracts on hand position of 5,840 lots at an average price point ~11%⁷ above 1H23 provides good visibility into 2H23 and FY24
- Resilient demand for Land Lease Communities (LLC) product, supporting continued price growth for new releases
- Capital management metrics remained strong with gearing at 22.1% and ~\$1.4bn of available liquidity
- FY23 FFO per security guidance maintained at 36.4 to 37.4 cents on a pre-tax basis⁸, with:
 - Lower MPC settlements due to wet weather production impacts expected to be offset by a stronger contribution from the Commercial Property segment and higher MPC margins than previously expected
 - Tax payable now expected to be at the lower end of the previous guidance range of 5-10% of pre-tax FFO
- Extended existing relationship with Mitsubishi Estate Asia through an agreement to invest in masterplanned communities⁹

¹ Funds from operations (FFO) is determined with reference to the PCA guidelines.

² Includes comparable assets; excluding acquisitions, divestments and assets under development. Excludes COVID-19 abatements and ECL.

³ Rental growth on stable portfolio on an annualised basis.

⁴ 19.6% re-leasing spreads on new leases negotiated over 1H23; reflects executed leases & leases under HOA as at 31 December 2022. 12.1% re-leasing spreads on new leases and renewals executed over 1H23.

⁵ Forecast end value on completion, subject to relevant approvals.

⁶ Includes 724 settlements under joint venture/project development agreements (1H22: 672).

⁷ Average price per lot of contracts on hand vs 1H23 settlements.

⁸ All forward looking statements, including FY23 earnings guidance, remain subject to no material deterioration in current market and production conditions.

⁹ The new capital partnership is expected to take effect in mid-2023 and will have a mandate to invest in Stockland owned and market originated masterplanned communities.

1H23 Overview

Stockland (ASX: SGP) has today released its results for the half year to 31 December 2022.

Stockland delivered Funds From Operations (FFO) of \$353m and FFO per security of 14.8 cents in 1H23, both up by 0.7% relative to 1H22. Stockland expects FFO to be more heavily skewed to 2H in FY23 than in recent periods due to the timing of MPC settlements.

Adjusted Funds From Operations (AFFO) was \$310m and AFFO per security was 13.0 cents in 1H23, up by 5.7% compared with 1H22, primarily due to lower tenant incentives over the period.

Statutory profit for 1H23 was \$301m, down from \$850m in 1H22. The statutory result for this period includes \$30m¹⁰ of net commercial property revaluation gains, compared with a net uplift of \$543m¹⁰ in the previous corresponding period, reflecting the high quality of Stockland's portfolio in an environment of softening capitalisation rates.

A distribution of 11.8 cents per security was declared, reflecting a payout ratio of 80% of FFO.

Managing Director and Chief Executive Officer, Tarun Gupta, said "We have continued to progress the execution of our strategy while delivering solid operational and financial results in an uncertain macroeconomic environment.

"Our 1H23 financial result reflects the strength of our diversified business model. 1H23 FFO was up slightly despite a significant expected earnings skew to 2H for our MPC business. The earnings impact of this skew was offset by a higher contribution from our Commercial Property investment portfolio. This reflects solid like-for-like net operating income growth and the contributions from Logistics developments completed over FY22 and 1H23.

"The result also reflects the initial financial benefits of the strategic initiatives that we implemented over FY22. In February 2022, we announced the establishment of two significant capital partnerships – the Stockland Residential Rental Partnership (SRRP) and the M_Park Capital Partnership. The 1H23 result includes meaningful Management Income and Development Income contributions from both partnerships, along with our other joint ventures and management agreements across our portfolio.

"We have extended our existing relationship with Mitsubishi Estate Asia through an agreement to invest in masterplanned communities. The new capital partnership is expected to take effect in mid-2023 and will have a mandate to invest in Stockland owned and market originated masterplanned communities."

"Following the divestment of our Retirement Living business in July 2022, we have continued to reshape our portfolio in line with our strategic priorities, executing on ~\$266m of non-core asset sales at a ~4% aggregate premium to book values¹¹."

¹⁰ Excludes sundry properties and stapling adjustment, includes investment properties under construction (IPUC) and Stockland's share of equity accounted investments.

¹¹ Includes disposal of Stockland Bull Creek, WA and assets held for sale Stockland Riverton, WA and Stockland Gladstone, QLD.

Table 1: 1H23 Funds from Operations summary table

\$m	1H23	1H22	Change
Commercial Property FFO	320	278	15.1%
Communities FFO	113	129	(11.9)%
Retirement Living FFO	-	15	-
Unallocated corporate overheads	(47)	(35)	33.6%
Net interest expense	(33)	(37)	(10.1)%
Total	353	350	0.7%
FFO per security (cents)	14.8	14.7	0.7%
AFFO per security (cents)	13.0	12.3	5.7%
Distribution per security (cents)	11.8	12.0	(1.7)%
Statutory profit	301	850	(64.6)%

Commercial Property

The Commercial Property segment delivered a strong 1H23 result, with FFO of \$320m up by ~15% relative to the previous corresponding period. This reflected comparable growth of 3.2%¹² from the ~\$10.8bn¹³ Commercial Property investment portfolio, stable Development Income, and the initial contribution to Management Income from our M_Park Stage 1 development.

As at 31 January 2023, the rent collection rate across the Commercial Property portfolio was 99.1% for the period, compared with 97.5% for 1H22¹⁴.

Approximately 86% of the Commercial Property portfolio was independently revalued over the period. This resulted in a \$30m, or 0.3% increase on previous book values¹⁵.

Table 2: Commercial Property 1H23 Funds from Operations summary table

\$m	1H23	1H22	Change	
Commercial Property (CP) FFO	320	278	15.1%	
Logistics	67	59	13.2%	
Workplace	54	56	(4.4)%	
Town Centres	185	156	18.6%	
Commercial Property Development Income	27	28	(2.2)%	Comprises: Commercial Property development revenues net of direct costs; profit from disposal of build-to-sell development projects
Commercial Property Management Income	16	8	102.5%	Comprises: fee income for investment, development and property management services
Commercial Property net overheads	(29)	(29)	(0.7)%	Includes all costs not directly attributable (or capitalised) to projects or properties

¹² Includes comparable assets; excluding acquisitions, divestments and assets under development. Excludes COVID-19 abatements and ECL.

¹³ Excludes sundry properties and stapling adjustment.

¹⁴ Rent collection rates across the portfolio up to 31 January on 31 December billings. 1H22 includes all provisioned COVID-19 abatements.

¹⁵ Excludes sundry properties and stapling adjustment, includes investment properties under construction (IPUC) and Stockland's share of equity accounted investments.

Logistics

The ~\$3.2bn¹⁶ Logistics portfolio delivered comparable FFO growth of 4.4%¹⁷ over the period.

Occupancy was maintained at 99.9%¹⁸, and new leases and renewals negotiated during the half year (including those yet to be executed) saw an average uplift of 19.6%¹⁹ relative to previous in-place rents.

Stockland continues to focus on the delivery of its ~\$6.4bn²⁰ Logistics development pipeline, with ~\$1.2bn²⁰ of development completions targeted by the end of FY24. The ~\$550m²⁰ of projects that are expected to complete in FY23 are now approximately 92% pre-leased²¹.

CEO, Commercial Property, Louise Mason said: “Our portfolio continues to benefit from favourable demand-supply dynamics for well-located, high quality Logistics assets. We remain focused on capturing positive rental growth opportunities presented by our 3.4 year¹⁸ weighted average lease expiry, leasing more than 232,200sqm²¹ in 1H23.”

The Logistics portfolio delivered a net valuation gain over the period of \$48m, or 1.6%, with a 33 bp softening of the portfolio’s weighted average cap rate more than offset by strong rental growth across the portfolio.

Workplace

The majority of Stockland’s ~\$2.1bn¹⁶ Workplace portfolio is currently being positioned for future development. This is reflected in the portfolio’s weighted average lease expiry of 4.4 years^{18,22} and average occupancy of 92.7%^{18,22}.

The Workplace portfolio saw a decline in comparable FFO of 3.4%¹⁷, impacted by the rebasing of rents to market levels at one asset. New leases and renewals negotiated over the period (including those yet to be executed) resulted in an average decline of 1.1%^{22,23}.

Stockland continues to progress the planning and delivery of its ~\$5.8bn²⁰ Workplace development pipeline.

Stage 1 of the M_Park development, in partnership with Ivanhoé Cambridge, is progressing well with pre-leasing sitting at 65% (including heads of agreement) and completion of its four buildings scheduled to occur on a staged basis between late FY23 and FY25. The proposed Stage 2 of the project is currently going through the approvals process. The combined M_Park development has an expected end value of over \$2bn²⁰ and is poised to become one of Australia’s leading life science and technology precincts.

The valuation of Stockland’s Workplace portfolio declined by \$38m, or 1.8%, reflecting higher re-letting and incentive allowances along with 12 bp of cap rate softening.

Town Centres

The Town Centre portfolio delivered strong operational and financial performance over the period, with comparable FFO growth of 5.0%¹⁷.

The portfolio generated comparable Moving Annual Turnover (MAT) growth²⁴ of 13.7% and specialty MAT growth of 19.1% versus the previous corresponding period, reflecting the impact of extensive trade restrictions²⁵ in 1H22.

The portfolio continues to benefit from its ~75% MAT skew to essentials-based categories and the extensive remixing and repositioning of the asset base that Stockland has undertaken over several years.

¹⁶ Excludes WIP and sundry properties.

¹⁷ Includes comparable assets; excluding acquisitions, divestments and assets under development. Excludes COVID-19 abatements and ECL where applicable.

¹⁸ By income. As at 31 December 2022.

¹⁹ 12.1% re-leasing spreads on new leases and renewals executed over 1H23.

²⁰ Forecast end value on completion, subject to relevant approvals. Workplace includes M_Park at 100% share.

²¹ Reflects executed leases & leases under HOA as at 31 December 2022.

²² Excludes Walker Street Complex in 1H23.

²³ (8.1)% re-leasing spreads on new leases and renewals executed over 1H23.

²⁴ 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.

²⁵ Previous corresponding period impacted by COVID-19 trading restrictions, over July 2021-October 2021.

Strong sales resulted in specialty occupancy costs declining to 15.2%²⁶ over the half (versus 15.8% at June 2022) while also facilitating a further acceleration of positive leasing spreads to 2.5%²⁷ (versus 1.5% for FY22) and a decline in average incentives levels for new leases.

CEO, Commercial Property, Louise Mason said: “Our Town Centre portfolio proved its resilience during the period of COVID-19-related disruption and is generating strong sales growth now that trading restrictions have been removed.”

Relative to the pre-COVID-19 corresponding period, comparable Moving Annual Turnover for the portfolio was up by 10.6%, with specialty MAT up by 11.9%^{28,29}.”

The valuation of the Town Centre portfolio rose by \$20m, or 0.4%, with market rent growth offsetting 5 bp of cap rate softening.

Management and Development Income

Commercial Property (CP) Development Income comprises development revenues net of direct costs, along with profit from the disposal of build-to-sell development projects.

CP Development Income declined slightly to \$27m in 1H23 versus \$28m for 1H22. This reflects a lower level of Logistics build-to-sell trading profits, offset by the recognition of initial development revenues relating to M_Park Stage 1. The Group expects to generate additional trading profits in 2H23, along with further M_Park development revenues.

Commercial Property (CP) Management Income comprises fee income from third parties relating to the provision of investment, development and property management services.

CP Management Income of \$16m in 1H23 comprised development management fees relating to M_Park Stage 1 along with ongoing fees from third parties for development and property management services provided across our existing Commercial Property portfolio. The result for the previous corresponding period of \$8m did not include any development management fee contribution.

Communities

The Communities segment FFO contribution of \$113m was ~12% below the 1H22 result for the business.

This was driven by a lower contribution from the MPC business, reflecting a more material expected skew to 2H for settlement volumes than in the previous corresponding period.

The contribution from Land Lease development operations was up by \$31m to \$38m for 1H23, driven by gains on the transfer of two development communities³⁰ into the SRRP partnership and underlying growth of the platform.

The creation of the SRRP partnership has driven an uplift in Management Income relating to the Communities business over the period and is expected to generate ongoing fees relating to development management and property management of the partnership.

²⁶ Occupancy cost reflects stable assets, adjusted to reflect tenants trading more than 24 months.

²⁷ Rental growth on stable portfolio on an annualised basis.

²⁸ 2022 vs 2019.

²⁹ 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.

³⁰ Transfer of Stockland Halcyon Nirimba, QLD and Stockland Halcyon Berwick, VIC into SRRP generating cash-backed profit.

Table 3: Communities 1H23 Funds from Operations summary table

\$m	1H23	1H22	Change	
Communities FFO	113	129	(11.9)%	
MPC Development FFO	138	177	(22.0)%	Comprises: Development income from MPC settlements net of direct costs.
LLC Development FFO	38	7	442.9%	Comprises: Development income from sale of new homes net of directly attributable costs; realised gains on transfer of communities into SRRP.
Communities Rental Income	6	6	8.6%	Comprises: Rental income from established LLC portfolio and stand-alone medical and childcare centres within Stockland communities.
Communities Management Income	20	11	86.9%	Comprises: fee income for investment, development and property management services.
Communities net overheads	(89)	(72)	23.4%	Includes all costs not directly attributable (or capitalised) to projects.

Masterplanned Communities

The MPC business delivered Development FFO of \$138m for 1H23, down ~22% versus 1H22.

During the period, the business achieved 1,872³¹ settlements, versus 2,329 in the previous corresponding period. Settlement volumes were impacted by production constraints resulting from extreme wet weather across the Eastern Seaboard of Australia.

As a result of weather-related production delays, Stockland now expects to complete approximately 5,500³² residential settlements in FY23, against a previous target of approximately 6,000 settlements.

The development operating profit margin for the period was 24.2% compared with 26.6% for 1H22, with the decline primarily reflecting a shift in the geographical mix of settlements, along with the impact of lower settlement volumes.

For the full year (FY23), we expect the MPC business to achieve a development operating profit margin of approximately 26%. This is equivalent to an operating profit margin of approximately 19% after allocation of Communities divisional overhead. We expect the reported margin to exceed our initial expectations primarily as a result of a more favourable settlement mix and development cost savings relating to recently completed projects.

Net sales for the half totalled 1,804 lots, below the 1H22 level of 3,815 net sales. As expected, successive interest rate rises since May 2022 have driven a moderation of demand, with enquiry rates returning to pre-COVID-19 levels and sales volumes slowing.

CEO, Communities, Andrew Whitson said: “We are well positioned for this phase of the residential cycle, with 5,840 contracts on hand at an average price point ~11%³³ above the 1H23 settlement average and a well-bought landbank that has strong embedded margins following several years of residential price growth.”

“Over the next 18 months to the end of FY24, we expect to launch 8 new communities³⁴, increasing production and activating up to ~80% of the landbank.”

“While the 1H23 sales result reflects a sequential improvement over 2Q23 (959 lots) vs 1Q23 (845 lots), we do not expect a material improvement in residential market conditions until the interest rate outlook stabilises.”

³¹ Includes 724 settlements under joint venture/project development agreements (1H22: 672).

³² Subject to no material deterioration in current market and production conditions.

³³ Average price per lot of contracts on hand vs 1H23 settlements.

³⁴ Subject to relevant approvals and planning.

Land Lease Communities

The LLC development business delivered Development FFO of \$38m for the period, comprising Stockland's share of SRRP development income and cash-backed gains from transferring two development communities into SRRP.

With supply chain constraints and wet weather having driven an elongation of production timeframes, the net sales rate of 127 homes over the half (versus 212 for 1H22) reflects a deliberate slowing of releases in order to allow production to catch up.

Development settlement volumes for 1H22 totalled 174³⁵ homes, compared with 98 homes in 1H22. The business remains on track to meet its target of ~350 settlements in FY23.

The development operating profit margin for the period of 29.2% was up strongly compared with 1H22. This reflected underlying price growth along with realised margin on the transfer of development communities into SRRP.

Stockland CEO, Communities, Andrew Whitson said: "Underlying demand for Land Lease product remained resilient during 1H23, supporting continued price growth for new releases. We have good visibility into 2H23 and FY24, with 452 contracts on hand at an average price ~17% above 1H23 settlement pricing³⁶.

"There are currently six communities in the SRRP portfolio that are actively trading. We expect to transfer an additional seven communities into the partnership by the end of FY24³⁷, generating further profits on transfer and driving future settlement volumes for SRRP."

Communities Rental Income

Communities Rental Income of \$6m for the period is up 8.6% compared with 1H22. This reflects underlying rental growth across Stockland's established portfolio of LLC units and Community Real Estate assets, net of the impact of the formation of the SRRP in 2H FY22 (which reduced the Group's ownership interest in established units that were transferred to the partnership).

Operational performance across the established LLC portfolio was strong, with 1H23 rental income benefiting from an average 6.3% rent increase³⁸ effective from 1 July 2022 and the portfolio's net operating margin maintained at 65%.

Management Income

Communities Management Income of \$20m in 1H23 comprised development management and property management fees relating to SRRP and existing MPC joint ventures. The result for the previous corresponding period of \$11m did not include any fee income relating to SRRP.

³⁵ Within SRRP.

³⁶ Average price per home of contracts on hand vs 1H23 settlements (1H23 average settlement price per home: ~\$628,000).

³⁷ Subject to relevant approvals, planning and meeting the partnership's return requirements.

³⁸ Average rental increases on stabilised portfolio effective 1 July 2022.

Capital Management

Stockland finished the period in a strong financial position. At 31 December 2022, the Group's gearing was 22.1%, which is toward the lower end of the Group's target range of 20% to 30%.

Stockland maintained significant headroom under its financial covenants³⁹, and strong investment grade credit ratings of A-/A3 with stable outlook from S&P and Moody's, respectively.

The Group's weighted average cost of debt for 1H23 was 4.1%. This is expected to average approximately 4.4%⁴⁰ for FY23. Weighted average debt maturity sits at 4.7 years. The fixed hedge ratio averaged 59%⁴¹ over the period and is expected to average 60% for FY23.

Available liquidity at 31 December 2022 was ~\$1.4bn. The combination of our strong liquidity position, access to domestic and global debt capital markets, strong relationships with capital partners and ongoing discipline around cashflows, positions us well to deliver on our strategic priorities and capitalise on redeployment opportunities.

Stockland CFO, Alison Harrop said: "We continue to manage our interest rate exposure prudently during a period of rising interest rates. We are well positioned to implement our strategy and pursue growth opportunities, with gearing at the lower end of our target range and liquidity of approximately \$1.4bn at 31 December."

The 1H23 distribution of 11.8 cents per security reflects a payout ratio of 80%, which is within the target range of 75-85% of FFO.

FY23 Outlook and Guidance⁴²

Stockland maintains its FY23 FFO per security guidance range of 36.4 to 37.4 cents on a pre-tax basis.

FY23 tax payable is now expected to be at the lower end of the range of 5-10% of pre-tax Group FFO, reflecting the utilisation of remaining carry-forward tax losses in 1H23.

Distribution per security is expected to be within Stockland's targeted payout ratio of 75-85% of post-tax 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.

1H23 Results and market briefing

This ASX announcement should be read in conjunction with Stockland's 1H23 corporate reporting suite available at <https://www.stockland.com.au/investor-centre/results>

Stockland will conduct a market briefing at 10.00am (AEST) today, Tuesday 21 February 2023.

Please register for the webcast at: <https://web.lumiagm.com/#/m/390390099>

³⁹ Covenant levels: less than 50% Financial Indebtedness / Total Tangible Assets (FI / TTA), and Interest Coverage Ratio (ICR) of more than 2:1. FI / TTA as at 31 December 2022 was 24.2%, and the ICR was 6.9x (12-month average to 31 December 2022).

⁴⁰ Assuming average BBSW of 3.22% over FY23.

⁴¹ Average over the 6 months to 31 December 2022.

⁴² 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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Stockland (ASX:SGP)

We are a leading creator and curator of connected communities with people at the heart of the places we create. For more than 70 years, we have built a proud legacy, helping more Australians achieve the dream of home ownership, and enabling the future of work and retail. Today, we continue to build on our history as one of Australia's largest diversified property groups to elevate the social value of our places, and create a tangible sense of human connection, belonging and community for our customers. We own, fund, develop and manage one of Australia's largest portfolios of residential and land lease communities, retail town centres, and workplace and logistics assets. Our approach is distinctive, bringing a unique combination of development expertise, scale, deep customer insight, and diverse talent - with care in everything we do. We are committed to contributing to the economic prosperity of Australia and the wellbeing of our communities and our planet.