Managing Director's remarks

Annual General Meetings | Tuesday 27 October 2015

Thank you Graham. Good afternoon ladies and gentlemen.

As Graham mentioned our key metrics show significant improvement in our performance for the 2015 financial year. This reflects the discipline and hard work of our team to execute the strategy we put in place two years ago.

Our strategic priorities have been to grow our asset returns and our customer base, maintain our capital strength and continue to improve our operational efficiency.

We made good progress in each of these areas in FY15 with key examples including close to $600 million in accretive acquisitions across Retail, Logistics and Business Parks, Residential and Retirement Living; broadening our customer reach with medium density residential products; significant cost savings through ongoing procurement improvements; our global recognition as the most sustainable real estate company by the S&P Dow Jones Sustainability Index; and high customer satisfaction across all areas of our businesses.

Our successful brand refresh in 2014 moved us toward to a more streamlined group customer proposition; focusing on creating places where our customers want to live, shop and work. This has resonated strongly with our target audience improving our brand recognition across the country. We have recently rolled out a national campaign that has lifted customer awareness of Stockland with a 25% increase in customers starting their sales journey with us online. Our campaign has focused on what is important to our customers – community, affordability and quality.

Alongside these achievements we have maintained the strength of our strong balance sheet and retained our A-/stable credit rating. Our gearing remained at the lower end of our target range of 20 – 30% finishing the financial year on 23.4%. This is expected to increase within the range over FY16.

We delivered on our priority to grow asset returns and our customer base with strong results across our operating businesses. Residential, Retirement Living and Logistics and Business Parks were all up more than 15 per cent on the prior year.

Our Commercial Property business remains a key driver of our success, with funds from operations, or FFO, up 5% to $570 million, and operating profit growing 4% on the previous year to $517 million.

Our retail portfolio performed strongly with high occupancy, positive leasing spreads on new leases and renewals of more than 3% and lower incentives, which are only paid on new leases.

We achieved the strongest specialty sales growth we have recorded in four years. Total Moving Annual Turnover in our shopping centres grew 4.5%, with 7.0% growth from specialty stores. Importantly sales, per square metre across our portfolio were 12% above the national average and our specialty occupancy costs remained below average at 14.3%

We are starting to see the benefit of the major redevelopments we have undertaken over recent years as these assets progressively stabilise. In FY15 we opened major redevelopments at Hervey Bay in Queensland, Baldivis in Perth, and the first stage of Wetherill Park in Sydney's west. Each was met with an overwhelmingly positive response from local shoppers.

We also completed our $25 million Point Cook redevelopment in August and have welcomed international retailer, H&M, to Glasshouse where they will open their flagship Sydney CBD store next week, ahead of schedule. The final stages of Wetherill Park are also ahead of schedule and now due for completion before Christmas, and stage one of Harrisdale in Perth will open in the second half of FY16. These developments represent a combined investment of $550 million with an expected stabilised average yield of 7-8% and total returns above 11%.

Yesterday we released our first quarter update to the market. In this first quarter of FY16 retail continued to perform well with comparable specialty sales up 2.8% on the prior corresponding quarter, and comparable specialty moving annual turnover up 4.2%. The strongest performing retail categories were communication technology, food catering, retail services and homewares.

We remain focused on creating market leading centres with close to $300 million of retail development under construction and a pipeline of $1.1 billion targeting incremental rates of return of 11-14 per cent.

Turning now to our Logistics and Business Parks portfolio. In FY15 the portfolio delivered strong profit growth with Comparable Net Operating Income up 3.1% and comparable FFO up 5.1% reflecting positive leasing momentum.

We are steadily building up a strong portfolio of Logistics and Business Park assets that deliver solid returns and presents opportunities for future growth. During FY15 we acquired three new sites in Sydney and Melbourne and we most recently acquired a 23,000 square metre warehouse and distribution centre at Wonderland Drive, in Eastern Creek, Sydney. We have made good progress repositioning our portfolio with asset improvements under way at a number of key sites.

In our office portfolio in FY15 we achieved comparable NOI and FFO growth of 6.4% and 4.2% respectively following strong leasing activity in all Sydney office markets.

Our performance is benefiting from our strong weighting to Sydney. Around 65% of the portfolio is now located in the Sydney market, following the settlement of our 50% share in Waterfront Place and Eagle Street Pier in Brisbane during the quarter.

In FY15, our Residential business achieved a substantial 73.5% uplift in profit and ended the year with a record 3,742 contracts on hand, up 17% on last year.

This strong result reflected generally positive market conditions in the corridors where we operate and the progress we have made launching six key projects in two years with over 14% net operating profit margins and broadening our customer reach with diverse product offerings. Providing our customers with more choices is proving to be successful and we are now ramping up production for FY16 at selected projects. In September we launched our first standalone medium density project at Ivanhoe in Melbourne.

During the year we also continued to replenish our land bank with the acquisition of 4,000 lots. We have been quick to activate many of these with the majority of new projects on track to deliver profit within two years of acquisition.

Our residential sales in the first quarter have remained robust with a further 1,557 net deposits, which combined with the deposits already on hand at the end of FY15, brings the total to 5,299.

Residential markets around the country are at different stages, however, our active projects are generally well placed in high demand, low supply corridors. We also offer a clear affordability advantage, coupled with our reputation for creating desirable, liveable communities with 73% of purchases being owner occupiers and 46% first home buyers.

In line with our previous commentary, we expect markets in Sydney and Melbourne will moderate with a more normalised level of growth, Brisbane is showing improvement and Perth has slowed as anticipated.

Earlier this month I was proud to officially launch our $5 billion Caloundra South development on Queensland's Sunshine Coast. Fittingly named Aura – the city of colour – because of its dynamic and innovative design - this masterplanned community will create more that 20,000 new homes over the next three decades and become home to around 50,000 people on completion.

We remain confident we are well placed given the diversification of our business, contingency allowances we have built and we will continue to capitalise on strong demand for our differentiated and affordable offerings. We are very well placed to achieve our target of around 6000 residential sales this year assuming market conditions continue given the activation of new projects and current sales rates.

Finally, our Retirement Living had a strong FY15 with operating profit up 19.9% on FY14 reflecting strong sales, active management and improved efficiency. We are now two years into our five year plan to achieve a 7% cash return on assets in Retirement Living. This plan has seen us take a much more active approach to how we manage our village portfolio.

During FY15 we made good progress reshaping our portfolio via capital recycling with the sale of two non-core villages and the acquisition of eight villages in South Australia which has a particularly strong Retirement Living market. The acquired villages reflect a forecast Return on investment of more than 7%.

We delivered a strong first quarter with both established and development reservations substantially higher than the same period last year, reflecting a successful first quarter sales campaign.

The continued growth of our Retirement Living returns is underpinned by development. In the first quarter we commenced construction on our new village at Willowdale in Sydney which will launch in 2Q16.

Our landmark Cardinal Freeman development in Sydney’s inner west is on track to complete its first two buildings in April 2016 with over 85% of apartments already reserved.

While I am proud to share these strong results with you, I know that you are equally interested in our outlook for this year – FY16. There is clearly some caution among businesses and consumers, we expect conditions to remain reasonably supportive for the rest of FY16. Interest rates are anticipated to be stable and we expect the economy to continue to grow, albeit at below trend levels.

We have commenced FY16 with strong first quarter results and good momentum in sales and leasing across our core businesses.

I am confident in the strategy we are executing and that Stockland is well placed to

deliver our FY16 target growth in earnings per security of 6 – 7.5% and FFO growth of 8.5 – 10%, assuming there is no material change in market conditions.

I look forward to updating you on our progress at our half year results in February.