

Stockland Annual General Meeting 2005

Managing Director's Address

I will share with you an overview of the group's performance in the 2005 financial year, highlights from each of our operating Divisions and finally I will talk about our focus and outlook for the year ahead.

Our record results last year were underpinned by the strength and diversity of the group, and our focus on delivering our long term strategy.

All of our businesses performed extremely well, achieving excellent profit growth driven by strong leasing results from our commercial, industrial and shopping centres properties, and strong sales from our residential businesses in difficult market conditions.

At last year's AGM, we highlighted a number of initiatives we planned to focus on during the 2005 financial year to enhance our asset base and income streams.

I'm pleased to say we have delivered a number of these key initiatives, including the first successful year of operation of our unlisted property funds business, which has already launched three unlisted funds. This demonstrates our long-term value adding strategy, maximising the value of our integrated business platform.

Now I will talk in more detail about our 2005 results.

The group's gross revenue was an impressive \$1.76 billion last year, an increase of 28.5%.

Significantly, our net profit increased by 13.5% to \$517million, impressive growth by any measure.

Earnings per security increased by 5.3% to 39.8 cents. And we have once again increased your distributions per security, to 38.9 cents, an increase of 5.1%.

Over these past five years, Stockland has delivered a compound increase in both earnings and distributions per security of over 8% per annum, well in excess of industry averages. This shows that we can perform with consistency throughout market cycles.

A strong dividend yield and continued dividend growth has driven excellent total security holder returns. Our performance is shown by the blue line and we have consistently outperformed both the Listed Property Trust Index, shown in yellow, and the wider ASX 200 index, shown in red, over many years.

Now moving on to the highlights from each of our operating Divisions.

The Stockland Shopping Centres Division is headed by CEO Darren Steinberg.

Our Shopping Centre portfolio has grown to 40 properties with a total asset value of \$3 billion, recording annual sales of over \$4 billion. We had an impressive 128 million customer visits to our centres last year, while only 23 of our 2,700 shops are vacant across the portfolio.

The Shopping Centre Division delivered another excellent result, with a 7.5% increase in operating profit to \$214.2 million and comparable net income growth of an impressive 4.6%.

One of the centres successfully redeveloped last year as part of our ongoing development program was Stockland Bay Village, pictured here. Located in the rapidly growing regional area of the New South Wales central coast, this centre now includes K-mart, Coles, Woolworths and Aldi stores and this centre has been the number one sub-regional shopping centre in the country for specialty shop moving annual turnover for the past four years.

While we have seen retail sales growth moderating over the last 12 months, demand for retail space in our centres is still strong. Our portfolio is well positioned to continue to perform in this environment, as our centres are predominantly located in growth corridors such as regional Queensland, and the NSW Central and South Coasts.

Focussed management of our existing centres while unlocking the value of our \$700 million development pipeline ensures we continue to drive income from our portfolio, rather than having to acquire a significant number of new assets in what is currently an extremely competitive market.

The Commercial & Industrial Division, led by Steve Mann, had a great year.

The Division comprises 53 office, industrial and office park properties across Australia with a total asset value of over \$2.6 billion. We have more than 500 tenants, comprising both

government departments and a cross section of blue chip public and private companies. The portfolio has a very high occupancy rate of 99%.

These results were achieved through management's active de-risking of lease expiries, with over 410,000m² of office and industrial space leased or renewed.

The Division also reported strong financial results this year, with an operating profit of \$220.1million, and comparable net income growth of 3.5%.

In the commercial office sector, markets are mixed with Brisbane and Perth showing very strong growth, while the Melbourne and Sydney CBDs have been more subdued. However, we have recently seen clear signs of improvement in leasing demand in the Sydney CBD which gives us much more confidence in the future outlook for this market.

Our Optus transaction is Australia's largest ever single tenant lease, and we are making good progress with the development of Optus' new Australian headquarters in Sydney's Macquarie Park, pictured on this slide. The globally benchmarked new campus is estimated to have an end value of over \$350million, and will house some 6,500 Optus employees.

Signalling our ongoing focus on leveraging the diversity of the group for value-adding opportunities, the Commercial & Industrial team again partnered with our Unlisted Property Funds Division, this time to offer retail investors the chance to invest alongside Stockland in the ownership of the new Optus headquarters.

In addition to Optus, the team is focussing on the roll out of a further \$250 million development pipeline in the industrial and office parks sector, to capitalise on a shortage of quality properties and an increase in tenant demand.

We continue to see good rental growth in the industrial market, coupled with strong capital appreciation. Well located properties close to transport nodes will continue to perform well, and our acquisition and development program will capitalise on these conditions.

Moving now to our Development Division, led by Denis Hickey.

The Division now controls 83 current and future projects located in all mainland states across Australia, with a book value of over \$2 billion. The portfolio comprises over 65,000 future lots with a total end value of \$14.5 billion, and we are proud to be Australia's largest owner of

residential land. This is a strategic move by Stockland which will enable us to capitalise on the growing scarcity of quality, well located development land as outlined by Peter.

One of the highlights for the Development Division this year was the successful acquisition and integration of the Lensworth residential portfolio. One of the high quality masterplanned projects added to our portfolio through this acquisition is the Kawana project, located on Queensland's Sunshine Coast, pictured on this slide.

The Kawana site offers a number of opportunities for the Development Division and for other parts of Stockland's business, with residential lots for various household types, together with employment opportunities with 55 hectares of industrial and commercial zoned land, as well as several retail sites. Through our cross divisional capability we will be able to bring a whole of company approach to the development of this land, a skill that sets us apart from our competitors.

Last year, the Division continued its track record of profit growth, achieving an operating profit of \$197 million, an impressive increase of 25.3% on the previous year..

These results have ensured our position as the market leader in the development of master planned communities across Australia, and last year we received numerous industry awards for excellence in design, marketing and sustainability.

There has recently been a lot of media coverage of the state of the residential market. This chart shows national Building Approvals as measured by the ABS, and is split between detached houses in orange and townhouses and apartments in blue. Despite a steady decline since the market peak in late 2003, current trends continue to support our view of a 'soft landing' for the housing market.

It is true to say that there is not one residential market as such, the market is made up of many submarkets both by geography and product type. All of these markets have varying characteristics in terms of quality of product and supply and demand. It is our ability to identify and operate in areas of tightest supply and strongest demand and with quality product, that enables us to achieve our strong results.

Our national spread also gives us an advantage particularly as the Sydney market is currently very sluggish due to poor levels of home affordability and low population growth. The poor state of the Sydney market is, however, out of step with the rest of the country. Melbourne is

more robust, Western Australia is performing very strongly, and Queensland, while obviously slower than at the market peak, is still in good shape.

Despite these short term issues, particularly in Sydney, the long term outlook for residential property markets in Australia remains strong, with continued population growth and increasing immigration levels underpinning demand for land across the country.

We know that Australia will need to provide around 150,000 new dwellings each year to meet this demand and accommodate the population growth, but there is limited future supply – particularly in the major metropolitan centres, a situation that is unlikely to be resolved in the short term given the complex approvals processes we face.

Moving now to the Saville Hotel Group, which is headed by Greg Sear.

The group manages ten hotels with more than 1,500 rooms across Australia. Saville again performed well this year, achieving a record profit of \$5.3 million underpinned by an increase in room rates and occupancy levels. Our new flagship Brisbane hotel, pictured on this slide, is due to open just after Christmas.

And finally, our new Unlisted Property Funds Division, which is led by Robb Macnicol.

The Division performed very well in its first year of operation in line with our business plan, launching three unlisted funds with an end asset value of over \$370 million.

The first of these funds offered a share in our premier office building, Waterfront Place in Brisbane, the remainder of which is owned by the Commercial and Industrial Division, and the second fund which recently closed offered a share in the Optus headquarters in Sydney, which I mentioned earlier. We also sold down our soon to be completed Brisbane Saville Hotel through an unlisted syndicate.

We are pleased to note that many Stockland security holders have also become investors in these funds.

The launch of our Unlisted Property Funds business provides a number of benefits for Stockland's business; it enables us to extend our brand reach, broaden our investor base and

act as a capital partner to enhance our asset base. This business will also provide additional income streams to the group, through the launch of more offers to the retail and wholesale markets, accessing all areas of Stockland's business and management expertise.

The commitment of our people underpins the long-term success of Stockland's business. Our people have a strong culture of performance and teamwork, regularly putting in the extra effort needed to achieve business results.

This year we undertook a globally benchmarked Employee Engagement Survey through an independent research group. We achieved an employee engagement score of 82%, a fantastic result which outperformed the Australian norm, and what's more, it is even higher than the Global High Performing companies norm.

Our values, culture and focus on career progression opportunities set Stockland apart as an employer and we intend to focus on these key areas to ensure we attract and retain the best people. I would like to thank all of our people for their ongoing hard work and commitment to Stockland and reconfirm our commitment to them.

The management team continues to be focused on growing security holders returns and the outstanding result achieved last year shows the benefits of our focus.

We will continue to capitalise on the diversity of the group, using our integrated platform and leveraging relationships between our business divisions to explore new business opportunities and maximise security holder returns.

Thank you for attending today's meeting. I look forward to continuing to work hard to deliver strong and consistent returns to you, and would like to thank you for your support throughout the year.

Finally, I would like to recognise our Chairman, Peter Daly. Peter has been a cornerstone of Stockland's success for over 30 years. He has also had a major impact on my career and has helped me enormously as a wise, experienced and level-headed chairman. I will miss him, but I also look forward to working closely with Graham Bradley, and together we have already established a great rapport. Please join with me in recognising Peter's fantastic commitment and dedication to the group over many successful years. Thank you.