22 August 2024

Stockland reports FY24 FFO at top end of guidance range

Financial results for the twelve months ended 30 June 2024 (FY24)

Stockland (ASX: SGP) has released its financial results for the full year to 30 June 2024.

FY24 Group highlights

- Statutory profit of $305m, compared with $440m in FY23. Statutory profit in FY24 included $(310)m[1] of net investment property devaluations versus FY23 which included net devaluations of $(250)m[1]
- Pre-tax Funds From Operations[2] (FFO) of $843m, down 4.5% on FY23
- Pre-tax FFO per security of 35.4 cents, at the top end of our guidance range of 34.5 to 35.5 cents
- Post-tax FFO of $786m and post-tax FFO per security of 33.0 cents, down 7.2% from FY23
- Full year total distribution per security of 24.6 cents, compared with 26.2 cents in FY23
- Adjusted Funds From Operations (AFFO) of $659m and AFFO per security of 27.7 cents, down 10.1% on FY23
- Net tangible assets (NTA) of $4.12 per security, compared with $4.24 per security at 30 June 2023
- Strong operational metrics:
  - High quality Investment Management portfolio delivering solid operational metrics: comparable FFO growth of 3.5%[3]; with positive leasing spreads of +3.3%[4] for Town Centres and +37.9%[5] for Logistics
  - Delivered the first two buildings at MPark Stage 1 and commenced ~$0.6bn[6] of Logistics developments during FY24
  - Strong performance in Masterplanned Communities (MPC) with 5,637[7] settlements, above the targeted settlement range of 5,300-5,500 lots, at 23.2% development operating profit margin
  - Land Lease Communities (LLC) achieving 444 settlements at 23.0% development operating profit margin[8]
- Accelerated execution of strategy over FY24:
  - Meaningful reshaping of the portfolio, executing on the ~$1.06bn acquisition of 12 MPC projects[9], ~$210m acquisition of five LLC projects, ~$690m non-core Town Centre asset disposals[10]
  - Confirmed alongside consortium partners as the preferred proponent to deliver the Waterloo Renewal Project, NSW[11]
  - Expanded capital partnership platform, with Stockland Communities Partnership (SCP), Stockland Supalai Residential Communities Partnership (SSRCP)[9] and Stockland Land Lease Partnership (SLLP1)
  - Positioned for a step change in production rates across the residential sector, with 15 new communities launched across MPC and LLC during FY24
- Maintained capital discipline, with gearing at 24.1% and substantial available liquidity of ~$3.1bn
- FY25 FFO per security guidance range of 32.0 to 33.0 cents on a post-tax basis, excluding any benefit from the acquisition of the 12 MPC projects announced in late 2023[9] which remains subject to regulatory approval
- Distribution per security expected to be within Stockland's targeted payout ratio of 75% to 85% of FFO

[1] Excludes sundry properties and stapling adjustment, includes investment properties under construction (IPUC) and Stockland's share of equity accounted investments. Includes movements relating to build-to-hold projects that sit in the development segment.
[2] Funds from operations (FFO) is determined with reference to the PCA guidelines.
[3] Includes comparable assets; excluding acquisitions, divestments and assets under development.
[4] Rental growth on stable portfolio on an annualised basis.
[5] Reflects re-leasing spreads on new leases and renewals negotiated over the period.
[6] Forecast end value on completion, subject to relevant approvals.
[7] Includes 2,005 settlements under joint venture/project development agreements (FY23: 1,944).
[8] Excluding transfer of sites into capital partnerships.
[9] On a 100% basis, excluding transaction costs and subject to adjustments at completion. Subject to Foreign Investment Review Board (FIRB) and associated regulatory approvals, including the ACCC. Settlement of certain Project Delivery Agreement (PDA) projects are also conditional on the vendor obtaining relevant landowner Change of Control (CoC) consents. SSRCP may also negotiate to acquire certain additional parcels of land for an additional payment of up to $239m.
[10] Disposal of Stockland Townsville in QLD and Stockland Nowra, Stockland Glendale, and Stockland Balgowlah in NSW.
[11] Confirmation received post balance date; consortium partners are Link Wentworth, City West Housing and Birribee Housing. The project is expected to be delivered over multiple stages with anticipated commencement of works in 2027, subject to all relevant planning and approvals.

Table 1: FY24 Funds From Operations summary table

$m	FY24	FY23	Change
Investment Management FFO	630	603	4.5%
Development FFO	412	445	(7.4)%
Retirement Living FFO	-	3	-
Unallocated corporate overheads	(96)	(93)	(3.8)%
Net interest expense	(103)	(75)	(36.9)%
Total Pre-tax FFO	**843**	**883**	(4.5)%
FFO Tax expense	(57)	(36)	(56.5)%
Total Post-tax FFO	**786**	**847**	**(7.2)%**
Pre-tax FFO per security (cents)	35.4	37.1	(4.5)%
Post-tax FFO per security (cents)	33.0	35.6	(7.2)%
AFFO per security (cents)	27.7	30.8	(10.1)%
Distribution per security (cents)	24.6	26.2	(6.1)%
Statutory profit	**305**	**440**	(30.5)%

Stockland's pre-tax FFO per security was 35.4 cents, at the top end of our guidance range of 34.5-35.5 cents but representing a 4.5% decline compared with FY23. This primarily reflects a higher weighted average cost of debt, the impact of non-core asset disposals[12] as part of our capital recycling strategy, and lower contributions from our Commercial Development activities, offset by increased FFO from our Investment Management portfolio and residential development.

Managing Director and Chief Executive Officer, Tarun Gupta said: "We are pleased to deliver a FY24 result at the top end of our guidance range.

"Over FY24, we have accelerated the execution of our strategy and reshaped our portfolio meaningfully, with the ~$1.06bn acquisition of 12 MPC projects[13], the ~$210m acquisition of five LLC projects and the execution of ~$690m non-core Town Centre asset disposals[12]. We have also executed on three new capital partnerships[14], which we expect to contribute to earnings over time.

"Our positive strategic momentum has continued into the new financial year, and we are pleased to have been confirmed alongside our consortium partners, Link Wentworth, City West Housing and Birribee Housing, as the preferred proponent to deliver the Waterloo Renewal Project with Homes NSW.[15]

"Our Investment Management segment has delivered FFO growth of 4.5% over FY24, with comparable FFO growth of 3.5%[16] driven by strong leasing spreads across our Town Centres and Logistics portfolios. Recent completions of our build-to-hold Workplace and Logistics developments, and growing investment management fee income have also flowed through to higher FFO.

"A more stable interest rate environment over 2H24 has led to improvements in residential market conditions. In FY24, we achieved MPC settlement volumes of 5,637 lots, above our target guidance range, and LLC settlements of 444 homes. We are positioned to deliver increased settlement volumes over the medium-term, with 15 new MPC and LLC communities launched over FY24 and a further eight new communities expected to launch from our existing pipeline during FY25[17,18].

"ESG commitments remain at the core of our strategy, and we have implemented a number of scalable, commercially sustainable decarbonisation solutions over FY24. This includes a renewable energy partnership with Energy Bay which will make a significant contribution to achieving net zero scope 2 emissions in 2025, and lower carbon concrete and steel partnerships to reduce scope 3 emissions across our development pipeline. As we execute against our strategic priorities, we're committed to making consistent progress against our ESG targets."

[12] Disposal of Stockland Townsville in QLD and Stockland Nowra, Stockland Glendale, and Stockland Balgowlah in NSW.
[13] On a 100% basis, excluding transaction costs and subject to adjustments at completion. Subject to Foreign Investment Review Board (FIRB) and associated regulatory approvals, including the ACCC. Settlement of certain Project Delivery Agreement (PDA) projects are also conditional on the vendor obtaining relevant landowner Change of Control (CoC) consents. SSRCP may also negotiate to acquire certain additional parcels of land for an additional payment of up to $239m.
[14] Stockland Communities Partnership (SCP), Stockland Supalai Residential Communities Partnership (SSRCP) and Stockland Land Lease Partnership (SLLP1).
[15] Confirmation received post balance date. The project is expected to be delivered over multiple stages with anticipated commencement of works in 2027, subject to all relevant planning and approvals.
[16] Includes comparable assets; excluding acquisitions, divestments and assets under development.
[17] Subject to relevant approvals. Active defined as communities that have launched and are selling.
[18] Expecting to launch three in MPC and five in LLC during FY25.

Investment Management

The Investment Management segment delivered a strong FY24 result, with FFO of $630m.

This reflected growth of 4.5% relative to FY23, and comparable growth of 3.5%[20], from the ~$10.2bn Investment Management portfolio, initial contributions from completed Logistics and Workplace developments, as well as ongoing investment management fee income.

Approximately 86% (by value) of the Investment Management portfolio was independently revalued over FY24, resulting in a $310m, or 2.8% decrease on previous book values[19]. This reflected continued softness in the capitalisation rate environment, partially offset by sustained income growth across the portfolio.

Table 2: Investment Management FY24 Funds From Operations summary table

$m	FY24	FY23	Change
Investment Management FFO	**$630m**	**$603m**	**4.5%**
Logistics FFO	$168m	$139m	20.8%
Workplace FFO	$115m	$108m	7.0%
Town Centres FFO	$359m	$379m	(5.1%)
Communities Rental Income	$18m	$15m	17.1%
Investment Management Fee Income	$30m	$28m	7.5%
Investment Management net overheads	$(60)m	$(66)m	(8.4)%

Logistics: Strong performance from ~$3.7bn portfolio

- Delivered FFO of $168m over the period, up 20.8% relative to FY23
- Strong FY24 comparable FFO growth of 6.8%[20], driven by elevated re-leasing spreads[21] of 37.9%, versus 21.1% in FY23
- Occupancy (by income) at 98.2%, with active asset management to position the portfolio for future brownfield development
- FY24 Logistics FFO includes the initial earnings contributions from development completions at Ingleburn Logistics Park, NSW, Leppington Business Park, NSW, and 90 Melbourne Drive, VIC
- Net valuation gain over the period of $71m, or 2.1%, with the 70 basis point softening in the portfolio's weighted average cap rate more than offset by strong market rent growth

CEO, Investment Management, Kylie O'Connor said: "We continue to focus on capturing positive rental reversion opportunities and maximising the returns from our Logistics development pipeline."

Workplace: Majority of the ~$1.7bn portfolio being positioned for future redevelopment including mixed-use opportunities

- Delivered FFO of $115m, compared with $108m in FY23
- Comparable FFO rose by 3.2%[20] in FY24, reflecting fixed rental escalations on existing leases
- The limited scale of the portfolio is reflected in its operating metrics: re-leasing spreads of (1.7)%[21,22] impacted by reversion to market rent at one asset; and portfolio occupancy (by income) of 91.0%[22] and weighted average lease duration of 5.3 years[22] reflect the completion of the first two buildings at MPark Stage 1 during FY24
- Net devaluation movement of $(334)m, down 17.1%, reflecting 46 basis points of cap rate expansion

Town Centres: Solid financial and operational performance over FY24 from ~$4.5bn portfolio

- FFO of $359m was down 5.1% relative to FY23, as a result of ~$690m[23] of non-core asset disposals in FY24 in line with our capital recycling strategy
- Comparable FFO was up 2.1%[20] with positive re-leasing spreads of 3.3%, compared with 3.1% in FY23[24]
- Specialty occupancy costs of 15.2%[25] remain at sustainable levels, and occupancy remains high at 99%[26]

[19] Excludes sundry properties and stapling adjustment, includes investment properties under construction (IPUC) and Stockland's share of equity accounted investments. Includes movements relating to build-to-hold projects that sit in the development segment.
[20] Includes comparable assets; excluding acquisitions, divestments and assets under development. Town Centres comparable basket of assets as per the Shopping Centre Council of Australia (SCCA) guidelines, which excludes assets which have been redeveloped within the past 24 months.
[21] Re-leasing spreads on new leases and renewals negotiated over the period. Workplace re-leasing spreads were +3.7% in FY24, excluding deals at Durack Centre, WA that were rebased to market rent.
[22] Excludes Walker Street Complex, NSW and 601 Pacific Highway, NSW.
[23] Disposal of Stockland Townsville in QLD and Stockland Nowra, Stockland Glendale, and Stockland Balgowlah in NSW.
[24] Rental growth on stable portfolio on an annualised basis.
[25] Occupancy cost reflects stable assets, adjusted to reflect tenants trading more than 24 months.
[26] Occupancy across the stable portfolio based on signed leases and agreements at 30 June 2024.

- On a MAT basis, total comparable sales grew by 3.2%[20] and comparable specialty sales was up by 1.1%[20]. Major tenants benefited from an extra week's trading in FY24. Adjusting for this benefit, comparable MAT growth for the portfolio was 2.5%
- Net valuation decline of $46m, or 0.9%, with market rent growth partly offsetting 27 basis points of cap rate softening

Kylie O'Connor said: "The Town Centres portfolio has delivered strong results in an environment where cost-of-living pressures continue to impact retail performance. While discretionary categories such as apparel, jewellery and homewares continue to see slower sales, essentials categories such as food retailing and catering have been more resilient and delivered positive sales growth over the period.

"Stockland's portfolio is well placed to continue delivering resilient performance through a challenging consumer environment, benefiting from the active repositioning in recent years that has driven solid operating metrics and an over 70% MAT skew to essential-based categories."

Communities Rental Income: high quality income from expanding portfolio

- FY24 Communities Rental Income rose to $18m versus $15m in FY23
- Reflects an increasing number of occupied LLC homesites and stable contributions from Community Real Estate (CRE) assets within the portfolio
- The stabilised Land Lease Communities portfolio delivered comparable FFO growth of 5.7%[27] in FY24

Investment Management Fee Income: growing contributions from established partnerships

- The Investment Management portfolio generated $30m of fee income in FY24, up 7.0% from FY23
- Driven by ongoing fees from established partnerships and property management services provided to third parties
- Includes fee income from the renewable energy partnership

Kylie O'Connor said: "Stockland has five capital partnerships[28], and we are exploring further opportunities for capital partnering across the platform. We expect our expanding capital partnership platform to generate growing fee income over time."

Development

FY24 Development FFO was $412m, compared with $445m in FY23. Performance was underpinned by an increase in the earnings contribution from residential development, with strong settlement volumes and development operating profit margins across both the MPC and LLC businesses.

This was offset by lower development-related contributions from MPark Stage 1, following the completion of the first two buildings in 1H24 while the final two buildings are under construction. This is reflected in lower Commercial Development Income ($8m in FY24 versus $43m in FY23) and Development Management Fee Income ($46m in FY24 versus $51m in FY23).

Net overheads for the Development business increased over the period, reflecting our positioning for increased production rates in residential development and the launch of 15 new communities across MPC and LLC during FY24.

Table 3: Development FY24 Funds From Operations summary table

$m	FY24	FY23	Change
Total Development FFO	**$412m**	**$445m**	**(7.4)%**
Masterplanned Communities FFO	$481m	$464m	3.8%
Land Lease Communities FFO	$67m	$58m	14.6%
Commercial Development Income	$8m	$43m	(82.0)%
Development Management Fee Income	$46m	$51m	(11.3)%
Development net overheads	$(189)m	$(171)m	10.6%

Masterplanned Communities: Strong performance with settlements above target

- MPC Development FFO of $481m for FY24, up from $464m in FY23
- Achieved 5,637[29] settlements (versus 5,403 in FY23), above target settlement volumes of 5,300 to 5,500 lots
- Development operating profit margin for FY24 was 23.2% versus 26.0% in FY23, which reflected geographic mix and the completion of several high-margin projects in FY23

[27] Reflecting comparable growth for Land Lease Communities only.
[28] Includes Stockland Supalai Residential Communities Partnership (SSRCP), formed to acquire 12 MPC projects. The acquisition is subject to Foreign Investment Review Board (FIRB) and associated regulatory approvals.
[29] Includes 2,005 settlements under joint venture/project development agreements (FY23: 1,944).

- Net sales of 4,777 lots and the increase in enquiry levels reflect improvements in residential market conditions over 2H24
- Default and cancellation rates running slightly above historical averages but remain below cyclical peaks[30]
- The pace of improvement in price and volumes varied across the states, with VIC underperforming relative to the rest of the Eastern seaboard
- Solid underlying price growth, partly offset by higher construction cost escalation in WA and QLD
- Sale-to-settlement timeframes have improved over FY24 but remain above pre-COVID-19 levels
- Good visibility into FY25, with 3,415 contracts on hand
- 1Q25 net sales expected to be impacted by elevated cancellations as a result of a high number of VIC settlements called in June 2024
- Targeting FY25 development operating profit margins in the low 20% range and settlements of 5,300-5,700 lots, with a skew to 2H25

CEO, Development, Andrew Whitson said: "The residential market has shown signs of recovery over 2H24, however further improvements in conversion rates and sales volumes will depend on the interest rate environment, and the pace of market recovery in Victoria, which has underperformed the other Eastern Seaboard markets to date."

"We remain confident in the fundamentals of the residential market as net overseas migration and the labour market remain strong amid a chronic undersupply of new housing product. We're focused on increasing production to expand the supply of housing, including more affordably priced product, in our active corridors. Over FY24, we launched six new communities and we expect to launch up to three new communities from our existing pipeline during FY25[31]."

<u>Land Lease Communities:</u> <u>Settlements at the upper end of target range</u>

- LLC Development FFO of $67m in FY24 (versus $58m in FY23)
- Delivered 444 home settlements in FY24, at the upper end of the target range of 400-450 settlements, and up from 382 homes in FY23
- Development operating profit margin of 23.0%[32], positively impacted by the deferral of launch costs for three projects to FY25 and benefiting overall development margin for the period
- FY24 FFO includes ~$30m of cash-backed profit from the transfer of LLC projects[33] into the newly established SLLP1 partnership in 2H24
- Net sales up strongly, with 481 sales in FY24 versus 270 for FY23. This reflects a combination of consistent demand for LLC development product and the activation of our pipeline, with the launch of nine new LLC projects during FY24
- 351 contracts on hand at an average price point slightly above FY24 settlement pricing[34]
- For FY25, the LLC business is targeting 600-650 settlements and development operating profit margins in the low 20% range

Andrew Whitson said: "Over FY24 we have seen strong demand for our LLC product, driving increased sales and enquiry levels and supporting price growth on new releases. Improving conditions in the residential market has also been supportive, with demand showing less divergence on a state-by-state level compared with MPC.

"Our Land Lease platform is positioned for further growth. We have established two high-quality capital partnerships during the period and are now actively selling from 14 communities[31], up from five at the end of FY23. During FY25, we expect to launch a further five new communities[31]."

<u>Commercial Development:</u> <u>Disciplined management of ~$13bn[35] development pipeline</u>

- Commenced ~$0.6bn[3535] of Logistics developments over FY24, with a further ~$0.3bn[3535] expected to commence during FY25
- The first two buildings in MPark Stage 1 were delivered in 1H24, and construction has commenced on the final two buildings
- Targeting an appropriate spread between yield on cost and valuation cap rate
- Commercial Development Income was $8m in FY24, compared with $43m in FY23, due to lower development profits from MPark Stage 1 following the completion of the first two buildings

Andrew Whitson said: "We continue to leverage our cross-sector masterplanning capabilities to maximise the value of our Commercial Development pipeline, while exploring future capital partnerships to facilitate the activation of larger, longer-dated opportunities."

[30] On a rolling 12-month basis.
[31] Subject to relevant approvals. Active defined as communities that have launched and are selling.
[32] Excluding transfer of sites into capital partnerships.
[33] Includes Halcyon Gables, NSW, and Halcyon Coves, QLD in 2H24 and Halcyon Redlands, QLD in FY25, on deferred terms.
[34] Average price per home of contracts on hand vs FY24 settlements (FY24 average settlement price per home: ~$708,000).
[35] Forecast end value on completion, subject to relevant approvals.

Development Management Fee Income: Impacted by completion of the first two buildings at MPark Stage 1

- Comprises fee income from development-related activities undertaken on behalf of third parties in Stockland's existing joint ventures and partnerships across Commercial Development, MPC and LLC
- Stockland generated $46m in development-related fees over FY24, primarily driven by fees associated with MPC and LLC development. This compares with $51m in FY23, due to a lower contribution from MPark Stage 1 over FY24

Capital Management

- Gearing of 24.1% at 30 June 2024 (vs 21.9% at 30 June 2023), with substantial available liquidity of ~$3.1bn
- FY24 weighted average cost of debt of 5.3%[36] (vs 4.3% in FY23), with an average of ~5.4%[37] expected for FY25
- Weighted average debt maturity of 5.2 years at 30 June 2024 (vs 5.0 years at 30 June 2023), average fixed hedge ratio of 58%[36] over FY24 (vs 62% over FY23)
- Significant headroom under financial covenants[38], and strong investment grade credit ratings of A-/A3 with stable outlook from S&P and Moody's respectively

Stockland CFO, Alison Harrop said: "We have actively managed the recycling of capital into our targeted growth areas, including undertaking ~$690m[39] of non-core asset disposals over the period, and strengthening our debt position by increasing our weighted average debt maturity to 5.2 years with longer tenor debt issuance. The combination of our balance sheet strength, disciplined approach to capital management, good access to debt capital markets, and strong relationships with capital partners positions us well to continue executing on our strategy."

FY25 Outlook and Guidance[40]

- FY25 FFO per security is expected to be in the range of 32.0 to 33.0 cents on a post-tax basis, excluding any benefit from the acquisition of the 12 MPC projects announced in late 2023[41] which remains subject to regulatory approval
- FY25 distribution per security is expected to be within Stockland's targeted payout ratio of 75% to 85% of FFO
- Current market conditions remain uncertain. All forward looking statements, including FY25 earnings guidance, remain subject to no material deterioration in market conditions

Tarun Gupta said: "We are entering FY25 in a strong position and are well placed to continue executing on our strategy.

"Our MPC and LLC businesses have strong starting positions with 3,415 and 351 contracts on hand respectively. We have launched 15 new communities in FY24 and expect to launch a further eight from our existing pipeline during FY25 to position ourselves for a recovery in residential market conditions.

"The high quality of our Investment Management portfolio continues to underpin its performance. Our Town Centres portfolio is benefiting from a high weighting to essentials categories, and we remain focused on capturing income generation opportunities presented by our well-located Logistics portfolio and pipeline.

"As we continue to expand our capital partnership platform, we are focused on driving returns for the partnerships and growing recurring fee income for the Group. We're actively engaged with capital partners and continue to explore further opportunities for capital partnerships across our platform."

FY24 Results and market briefing

This ASX announcement should be read in conjunction with Stockland's FY24 corporate reporting suite available at https://www.stockland.com.au/investor-centre/results

Stockland will conduct a market briefing at 10.00am (AEST) today, Thursday 22 August 2024.

Please register for the webcast at: http://my.eu.lumiconnect.com/032-053-289

[36] Average over the 12 months to 30 June 2024.
[37] Assuming average BBSW of ~4.4%.
[38] 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 30 June 2024 was 28.6%, and the ICR was 4.3x (12-month rolling average to 30 June 2024).
[39] Disposal of Stockland Townsville in QLD and Stockland Nowra, Stockland Glendale, and Stockland Balgowlah in NSW.
[40] All forward looking statements, including FY25 earnings guidance, remain subject to no material change in market conditions.
[41] The acquisition of 12 MPC projects by SSRCP from Lendlease Communities remains subject to Foreign Investment Review Board (FIRB) and associated regulatory approvals, including the ACCC. Settlement of certain Project Delivery Agreement (PDA) projects are also conditional on the vendor obtaining relevant landowner Change of Control (CoC) consents. SSRCP may also negotiate to acquire certain additional parcels of land for an additional payment of up to $239m.

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.