



the Local Shopping reit plc

The Local Shopping REIT plc Interim Management Statement

London: 10 August 2010 – The Local Shopping REIT (“LSR” or the “Company”), a UK real estate investment trust focused on investments in local shopping assets, is pleased to provide the following update on trading for the four months to 31 July 2010.

Highlights

- Ongoing success with the active asset management programme:
 - 40 retail units let generating an annualised total rent of £355,770
 - Eight of these lettings incorporate stepped rent increases, with initial rents rising from £87,500 to £105,000 per annum, against a Market Rent of £97,000 per annum; the remaining 32 units were let at 1.4% above Market Rent
 - 91 rent reviews and lease renewals increased annual rental income by more than £75,000, producing an 8.3% uplift above Market Rent
 - Planning consent obtained for nine flats and a 4,600 sq ft retail unit
 - Overall void rate reduced to 11.7% (March 2010: 11.9%)
- Active programme of acquisitions and disposals:
 - Purchase of 17 properties for £8.87 million at an average net initial yield of 7.52%
 - Successful sale of three ex-growth properties for a total of £1.85 million, 7.1% above their March 2010 valuation
- Ongoing progress with property management mandates on behalf of two UK lenders; further increases in funds under management anticipated
- Financial position (with £46.4 million of undrawn facilities and a cash generative portfolio) remains strong, ensuring the Company is well positioned to build on its existing portfolio and activities.

Asset Management

Market context

We remain cautious in our outlook for the overall occupier market, owing to our belief that it has yet to feel the economic impact of the new Government’s substantial deficit reduction programme and that

downside economic risks persist. Such a backdrop will continue to present a challenging retail environment for tenants across the UK.

With this in mind, we will continue to maintain our focus on actively working the existing portfolio to maximise income, we are confident that the huge diversity of our tenant base and the wide geographic spread of our assets will continue to underpin the strength and cash generative nature of our business model.

Portfolio update

Despite this backdrop, demand for our smaller units remains steady and our willingness to adopt a flexible and proactive approach to leasing space is reflected in the total of £355,770 per annum of lettings of 40 vacant units completed since 31 March 2010 (4.6% up by value on the same period last year). Eight of these new lettings incorporate stepped rent increases, with the initial rents rising from £87,500 per annum to £105,000 per annum over the first three years of their leases, compared with a Market Rent of £97,000 per annum. The remaining 32 units were let at 1.4% above Market Rent. The letting pipeline also remains healthy, with 32 units under offer as at 31 July 2010, at a combined rental of £364,610 per annum.

We also made encouraging progress in growing rents through rent reviews and lease renewals. We completed reviews on 72 units, increasing rental income by £66,326 per annum, representing an average uplift of 8.7%, and 8.1% above Market Rent. We also renewed 19 leases, increasing rental income by £9,278 per annum at an average uplift of 7.8%, and 9.3% above Market Rent.

We continue to work hard to extract value from the under-used upper floors of some of our properties and adjacent unused land. Since 31 March 2010, we have secured planning consent for nine flats and obtained three change of use consents on vacant retail units from A1 (shops) to A2 (financial), A3 (cafes/restaurants) and A5 (hot food takeaway), which will significantly improve their letting prospects. At Cheveley Park Shopping Centre near Durham, we obtained consent to build a new 4,600 sq ft retail unit and we are in further discussions to pre-let it to a leading convenience store operator. We also completed the development of a flat in Macclesfield, which we subsequently let at £6,600 per annum.

Over the period, tenant defaults and associated bad debts remained in line with our expectations. Our success in letting vacant retail and residential units has led to a reduction in the overall void rate to 11.7% (March 2010: 11.9%). Underlying this reduction, the core commercial void rate has fallen to 8.0% (March 2010: 8.2%) and the residential void rate is down to 0.9% (March 2010: 1.0%). The deliberate void rate has risen slightly to 2.8% (March 2010: 2.7%) as we continue to look for opportunities to add value through change-of-use and other asset management initiatives.

Acquisitions and Sales

Market context

Within the investment market, the rapid rebound in prices appears to have settled and there are clear signs that investors are becoming increasingly discerning. However, low interest rates are encouraging owner-occupiers to consider purchasing rather than renting and we are beginning to see the impact of this within our portfolio, with a number of sales progressing with existing tenants and the recent sale of two properties with vacant possession. These sales are typically secured at a price above the current valuation.

Portfolio update

We are maintaining a highly selective approach to acquisitions in order to ensure that our purchases provide us with the potential for future rental growth or the opportunity to deliver added value by applying our active asset management skills. Since 31 March 2010, we have purchased 17 properties for a total of £8.87 million, reflecting an average yield of 7.52%. Recent purchases have included a £1.62 million parade in Stanwell, Middlesex, incorporating a reversionary convenience store let to Sainsbury's reflecting a net initial yield of 7.86%, and a £0.75 million portfolio of six shops in Scotland let to Ladbrokes on six-year leases, reflecting a net initial yield of 8.95%.

In line with our ongoing policy to sell ex-growth properties, we have sold three properties, including one with vacant possession, since 31 March 2010, for a total of £1.85 million, at an average yield of 7.50% (excluding the vacant property). These sales were at an average of 7.1% above their March 2010 valuation. In addition, we have exchanged contracts to sell a further vacant property for £0.42 million, 3.8% above its March 2010 valuation. A further £0.93 million of properties are under offer for sale at an average yield of 6.10%.

As a result of these purchases and sales, the Company now has a portfolio of 647 properties comprising over 2,000 letting units.

Fund management and business development

Our nationwide coverage, extensive network of local agents and specialist "hands-on" asset management skills provide us with a unique capability to manage smaller properties throughout the UK. With the rise in investment values for more secondary stock appearing to have halted over the last few months, it is becoming increasingly difficult to sell such properties on any large scale. As a result, lenders are refocusing their efforts on finding longer-term solutions to the management of distressed

assets. We have recently won mandates to manage properties on behalf of two UK lenders and anticipate a further increase in the number of properties under our management over the coming months.

In addition, the Company is looking at a range of other opportunities to deploy its unique set of specialist asset management skills. These include the management of third party assets and joint venture prospects, through which we would further build upon our expertise in managing smaller properties on behalf of UK lenders. Our future success will, therefore, be based upon the continuing effective execution of our strategy to:

- Optimise the value of, and income from, existing assets and recycle ex-growth properties
- Prepare the business for growth, which will be achieved by:
 - individual property purchases;
 - portfolio or corporate acquisitions;
 - the creation of joint ventures; and
 - the management of distressed assets.

Financing

The Company has two fully drawn loans with debt outstanding of £116.9 million at an average interest rate of 5.60%. The term of both loans runs until 2016 and there are no ongoing loan-to-value default provisions. LSR also has an additional, part-drawn long-term loan facility from HSBC of £60 million. This undrawn loan comprises a £35 million revolving credit facility, of which £3.1 million has been drawn, and a separate £25 million term facility of which £10.5 million has been drawn. This loan has an 85% loan-to-value covenant and 2016 expiry.

Nick Gregory, LSR's Joint Chief Executive Officer, said: "We continue to maintain our focus on actively working the existing portfolio to maximise income, despite the challenge of uncertain economic conditions, which persist in presenting a challenging retail environment for retailers. Against this backdrop, we are pleased to report strong progress in lettings and lease reviews and renewals during the period.

"Additionally, we are maintaining a highly selective approach to acquisitions in order to ensure that our purchases provide us with the potential for future rental growth or the opportunity to deliver added value by applying our active asset management skills."

Mike Riley, LSR's Joint Chief Executive Officer, added: "Our nationwide coverage, extensive network of local agents and specialist "hands-on" asset management skills provide us with a unique capability to manage smaller properties throughout the UK.

"With lenders refocusing their efforts on finding longer-term solutions to the management of distressed assets, we anticipate a further increase in the funds under our management from banks over the coming months. In addition, we are currently exploring a range of other opportunities to deploy our unique set of specialist asset management skills, including joint venture prospects, to underpin the ongoing successful execution of our core strategy."

For more information please contact:

The Local Shopping REIT plc

Mike Riley/Nick Gregory

Tel: 020 7292 0333

Financial Dynamics

Stephanie Highett/Richard Sunderland/Olivia Goodall

Tel: 020 7831 3113

About The Local Shopping REIT

The Local Shopping REIT plc ("LSR") is the first specialist start-up Real Estate Investment Trust ("REIT") to launch in the UK.

Already a major owner of local retail property, the Company is building a portfolio of local shops in urban and suburban areas, investing in neighbourhood and convenience properties throughout the UK. Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or 'top-up' shopping. As at 31 July 2010 the Company's portfolio comprised 647 properties, with over 2,000 letting units. In addition to its wholly owned portfolio the company intends to deploy its unique set of specialist asset management skills in the management of third party assets and joint ventures, building upon its current mandate to manage smaller properties for two UK lenders.

For further information on LSR, please visit www.thelocalshoppingreit.co.uk.