



the **Local Shopping** reit plc

**Interim results for the six months ended 31 March 2011**



# Implementing our Strategy

- **To optimise the value of, and income from, existing assets**
  - Recurring profit increased by 16.8% to £1.6m, compared to the corresponding period last year (six months to 31 March 2010: £1.4m)
  - Void rate fell to 11.1% from 11.9% as at 31 March 2010
  - Bad debt write-offs and provisions fell to £382,281 from £487,881, as at 31 March 2010
- **To use our unique business platform and management skills to grow revenue**
  - £100m Pramerica joint venture successfully implemented and operating
  - Currently two management contracts from banks



## Our sector: Occupiers

- Continued resilience from our tenants, (**NO** Mothercare, Oddbins or Focus)
- Our rents are low at £11.25 psf, < £233 per week and < 7% of business turnover
- Our rent free periods are shorter: typically 0-3 months compared with 18-36+ months for national retailers. Our tenants generally provide up to three months rent deposit
- Letting activity is strong - although poorer retailers do fail
- Lettings under offer remain high at £327,230pa (1.86% of ERV)
- We have no turnover rents

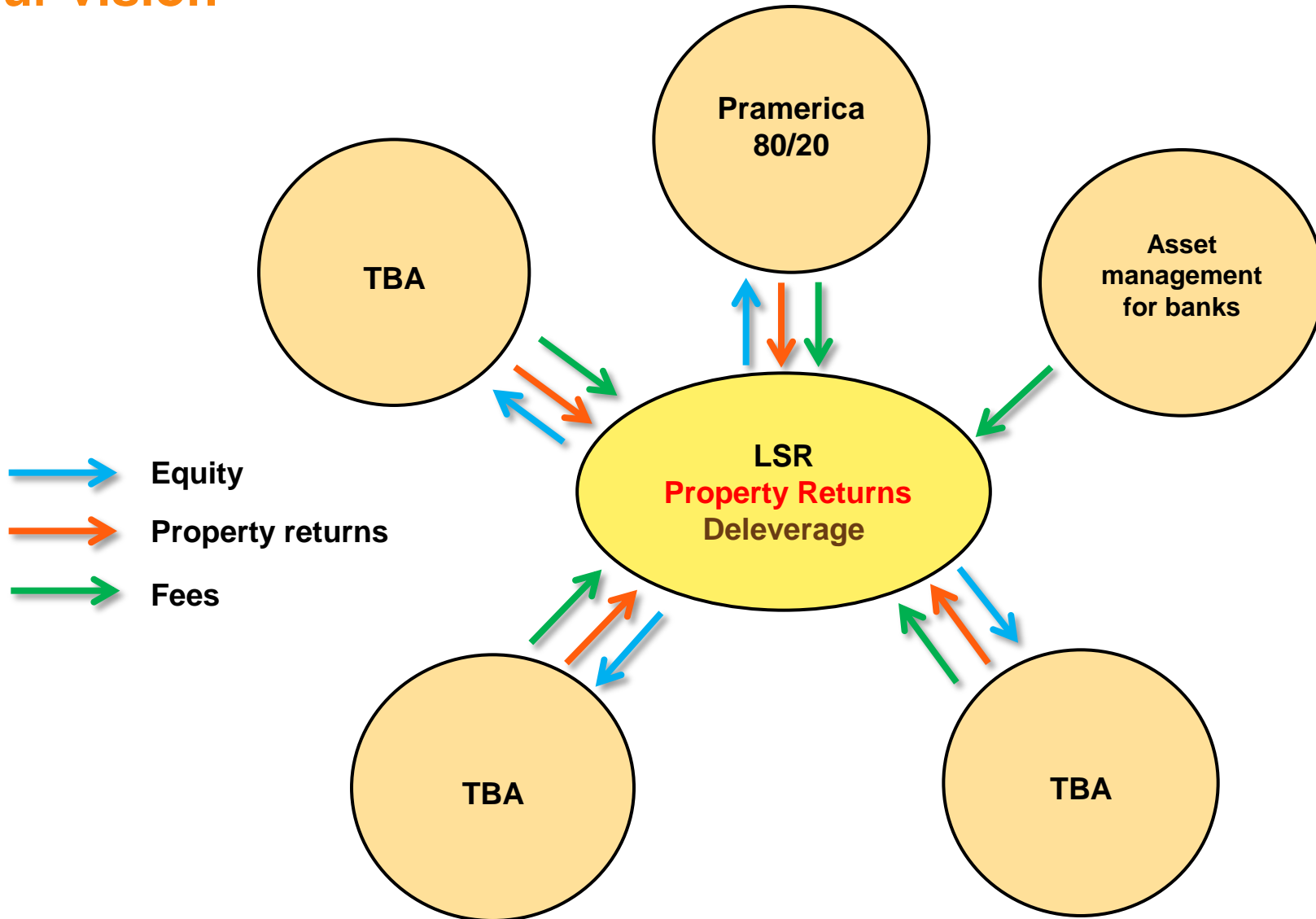
## Our sector: Investment

- The past six months have seen a flat market
- Stock picking is key to identifying asset management angles
- Visibility exists on investment yields from the auction market and private treaty activity
- Increasing owner occupier interest in purchasing due to prevailing low interest rates
- Bank debt is limited but some new players are entering the market. However the amounts are relatively small compared to the total debt outstanding
- Banks are putting more pressure on borrowers but need longer term solutions
- Values will be driven in the short term by exploiting asset management angles and rental growth, rather than yield shift

## Our strategy is based the following economic views:

- There will be little (if any) yield compression for higher yielding property over the next 2-3 years
- Rental growth will be limited
- Interest rates will remain low, as suggested by the 3 year swap rate at 1.7% and 5 year rate at 2.4%
- The banking sector will start returning to normal in 3-4 years (pre-2002 levels of activity)
- Larger properties (non institutional) will continue to trade at a discount
- Banks will not flood the market with commercial property

# Our vision



## Growth strategy

- Create joint ventures and funds in aligned sectors
- Corporate, portfolio or individual acquisitions using our REIT status where possible
- Assets under management will drive income growth
- Distressed property or loan management for third parties
- Loan acquisition
- Local Authorities who need asset management expertise to enable capital release
- Housing Associations who have capital tied up in retail parades
- Continue to manage actively our existing assets and sell ex-growth stock
- We are seeing more interesting opportunities, but they are hard to dig out and they don't come easily!

## Dividend

- Committed to pay 100% of recurring profits earned over the full year
- An interim dividend of 1.9p, to be paid as a PID on 30 June 2011 to shareholders on the register on 10<sup>th</sup> June 2011
- Our stated objective is to pay a progressive dividend but this clearly depends upon the Company's ability to generate increased profits. This relies on:
  - Strength of the tenant market
  - Sales and purchases
  - Share buybacks
  - Interest rates
  - New initiatives

## Results for the period ended 31 March 2011

Income Statement	31 March 2011	31 March 2010	Change
Rental income	£8.1m	£7.5m	7.0% ↑
Property expenses	£1.2m	£1.2m	-
Admin expenses <i>(including undrawn commitment fee)</i>	£1.5m	£1.3m	15.5% ↑
Net interest expense <i>(excluding the movement in fair value of swap)</i>	£3.7m	£3.6m	3.5% ↑
Recurring profit	£1.6m	£1.4m	16.8% ↑
Interest cover	215%	211%	19.0% ↑
Recurring profit per share <i>(Based on 81,391,764 shares)</i>	2.0p	1.7p	14.6% ↑

## Results for the period ended 31 March 2011

Balance Sheet	31 March 2011	30 September 2010	Change
Balance Sheet valuation	£190.8	£194.1m	£3.3m ↓
Cash held	£8.3m	£6.1m	£2.2m ↑
Outstanding debt <i>(debt less outstanding loan arrangement fees)</i>	£131.7m	£131.7m	-
Adjusted net assets <i>(adjusted to exclude fair value of financial derivatives)</i>	£65.0m	£66.8m	£1.8m ↓
Gearing <i>(excluding restricted cash)</i>	221.7%	224.6%	12.9% ↓
Loan to value ratio <i>(including substitution cash)</i>	67.4%	67.3%	0.1% ↑
Adjusted NAV per share <i>(adjusted to exclude fair value of financial derivatives) (based on 81m shares)</i>	79p	81p	2.5% ↓

## Debt facilities in place

The Group operates using the following facilities:

Loan	Facility	Loan outstanding	Undrawn	LTV covenant	Repayable in one instalment	Termination date
Barclays fixed rate loan	£69.2m	£69.2m	-	No	Yes	2016
HSBC fully drawn term loan	£47.7m	£47.7m	-	No	Yes	2016
HSBC term loan	£25.0m	£10.5m	£14.5m	Yes	Yes	2016
HSBC revolver facility	£35.0m	£5.1m	£29.9m	Yes	Yes	2016
<b>Total</b>		<b>£132.5m</b>	<b>£44.4m</b>			

- The LTV covenant on the undrawn available facility is 85%
- All loans have actual and forecast ICR covenants which range between 110% - 120% for actual and 107% - 115% for forecast
- Margin on undrawn facility between 1.2% and 1.6% depending on LTV
- Undrawn commitment fee of 60bp on undrawn funds

## Portfolio valuation: £189.6m (as at 31 March 2011)

- Initial Yield 8.07%
- Reversionary Yield 8.79%
- Equivalent Yield\* (EY) 8.82%
- Rent pa £16.2m
- Market Rent pa £17.5m
- Portfolio 3.9% over-rented (3.4% Sep 10)

## Like for like – adjusted for purchases/sales

- Rental decline stabilised
- Fall in rental values slowing
- Valuation flat: 325 properties unchanged; 147 increased; 173 decreased

	Change Sep10-Mar 11	Change Sep 09-Sep 10	Change Sep 08-Sep 09	Change Sep 07-Sep 08	Change Mar 07-Sep 07
Value	-0.1%	+3.5%	-13.2%	-17.7%	-4.1%
Rent pa	+0.0%	-1.0%	-3.6%	-5.4%	-1.5%
Market Rent pa	-0.4%	-2.3%	-4.4%	-1.2%	+1.1%

\* Excluding residential valued at 85% of vacant possession value (£17.5m)

# Resilient Portfolio\* (data as at 31 March 2011)

## Diversified

- 650 properties: 2,021 letting units
- Largest tenant: 2.7% of portfolio rent (Tesco)
- Largest property: 1.6% of portfolio value

## Affordable Rents

- Average rent per shop: £12,080 pa, £11.25 psf

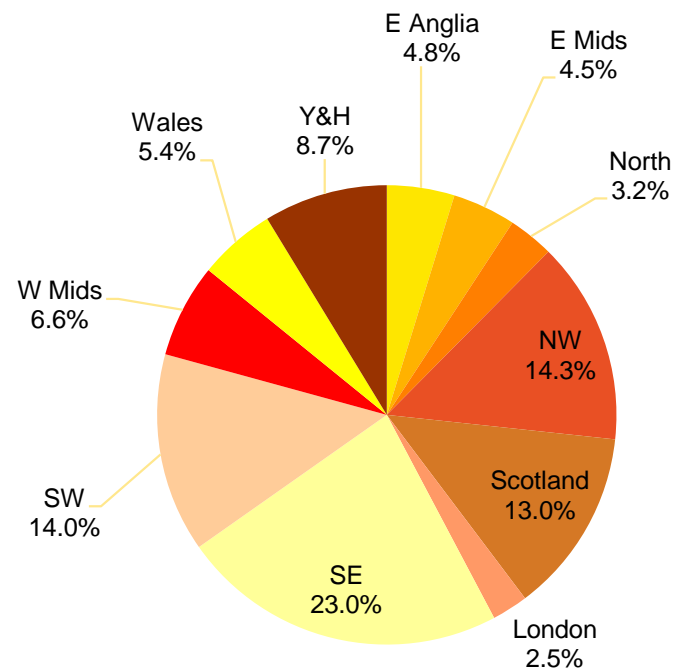
## Small Lot Sizes

- Median property value: £170,000

## Sector Spread

- Retail: 84.0%
- Offices: 4.6%
- Residential: 8.7%
- Other: 2.7%

## Regionally Spread



\* Full breakdown in supplementary information

# Asset management

## **New Lettings – Pace increasing and voids reducing**

- Flexible approach – maximising income
- 66 vacant units let at £634,290 pa (1H10: 48 at £444,964 pa)
- Lettings 2.1% above Market Rent - ignoring 18 lettings on stepped increases
- Average rent free period 95 days

## **Rent Reviews/Lease Renewals etc**

- Rent reviews on 102 units increased rents by £58,207 pa; average uplift of 4.3%, 8.1% above market rent
- Lease renewals on 25 units increased rents by £10,483 pa; average uplift of 3.9%, 0.2% below market rent
- Two lease extensions on residential flats secured premiums totalling £10,445
- Lease extended on a short leasehold property in Hastings increasing its value by 4.9%

## **Planning/Development**

- Planning consent secured for 13 flats, three retail units and the sub-division of two shops to provide an additional four smaller retail units
- Building out where yields justify - five flat conversions completed: four let at £26,100 pa with one held for sale
- Four change of use consents from A1 (shops) and D1 (institutional) to higher value uses

# Purchases and sales

## Purchases – highly selective

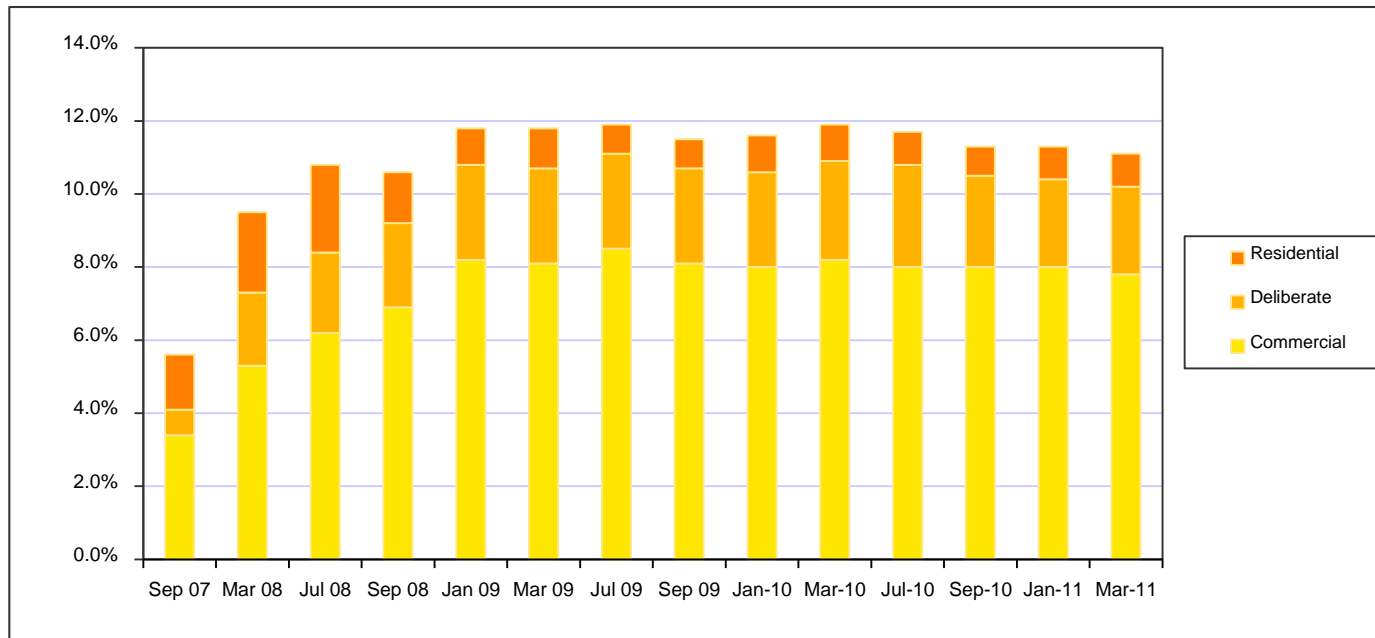
- Since 30 September 2010: five properties purchased for £1.58m at an average yield of 7.15%
- Four were convenience stores let on long leases to Tesco (RPI rent reviews) and Martin McColl (fixed rent reviews)
- Freehold interests acquired in two properties owned long leasehold - providing greater control

## Sales – ex-growth properties and flats

- Nine properties sold for £2.80m at an average yield of 7.64% (4.9% above valuation)
- Contracts exchanged to sell a property in Rutherglen, yielding 6.98%, for £0.50m (11.1% above valuation)
- Property in Stanwell transferred to Pramerica JV at £1.62m book valuation
- Four let flats sold for £0.36m at an average yield of 5.89% (40.1% above valuation)
- Increasing interest from tenants wishing to buy their units
- Further sales of ex-growth properties planned to release funds for reinvestment

## Void rate – 20 basis point fall since 30 September 2010

- Overall voids 11.1% - core commercial 7.8%, deliberate 2.4%, residential 0.9%



- Pipeline still healthy: at 31 March 2011 there were 25 units under offer at £327,230 pa
- Bad debts & provisions down – six months to 31 March 2011: £382,281 (1H10: £437,881; FY10: £918,452 )
- Rent deposits rose to £998,000 (£940,000 at 30 September 2010)

## Pramerica £100m JV

- Local parades and neighbourhood centres with rental growth and asset management opportunities
- Pramerica providing £30m equity and LSR £7.5m (80 : 20 equity split), paid pro rata on purchase. LSR equity funded from property disposals and/or facility drawdown
- Lot size £1.25m to £7m
- Exclusive investment period for two years or until 90% of equity is invested
- Minimum 15% geared IRR investment return targeted
- LSR will receive an acquisition fee, management fee and a promote
- Term - five years
- Exit options include portfolio disposals, break-up, LSR buy-in etc
- Debt finance from HSBC

# Pramerica JV purchases – patient and selective

- 128 opportunities reviewed – over £300m
- Three properties acquired for £5.35m; £2.55m portfolio exchange imminent, two properties under offer for £2.85m
- Deysbrook – first looked at in Jan 2010, asking £1.04m, 8% - purchased Apr 2011 for £0.85m, 9.7%

## Stanwell - £1.62m



- Convenience store let off £8.40 psf, ERV £12.50 psf +
- Planning to convert 1<sup>st</sup> floor offices into nine flats
- 8.1% IY, 10.6% RY

## Deysbrook - £0.85m



- Modern neighbourhood centre
- Potential to add units and upgrade tenants
- 9.7% IY, 9.7% RY

## Connah's Quay - £2.88m



- Off market – 12 newly built retail units adjacent to Morrisons
- Four vacant units – three under offer
- Largely national tenant line-up
- 6.6% IY, 8.9% RY

# Business outlook

- The economy and property markets are still very challenging and we expect this to continue over the next two to three years
- Our business is robust and continues to provide dividend returns to shareholders which we hope to grow
- The LSR team has a diverse array of skills and experience which can be used to exploit these conditions
- The business is in a strong position to benefit from the opportunities that are beginning to emerge in the market but we need to be highly selective
- We have a clearly defined strategy which we have started to implement
- We believe the next few years will be a very exciting period in the growth of our business

# Supplementary Information

## Portfolio valuation: £189.6m (as at 31 March 2011)

Capital Value	No. of Properties	Market Value	EY*
£0 – £100k	150	£11.4m	9.34%
£101 – £200k	242	£36.2m	8.85%
£201 – £500k	158	£51.2m	8.87%
£501k – £1m	73	£48.8m	8.73%
£1 – £3m	25	£35.9m	8.75%
£3m +	2	£6.1m	8.33%
<b>Total</b>	<b>650</b>	<b>£189.6m</b>	<b>8.82%</b>

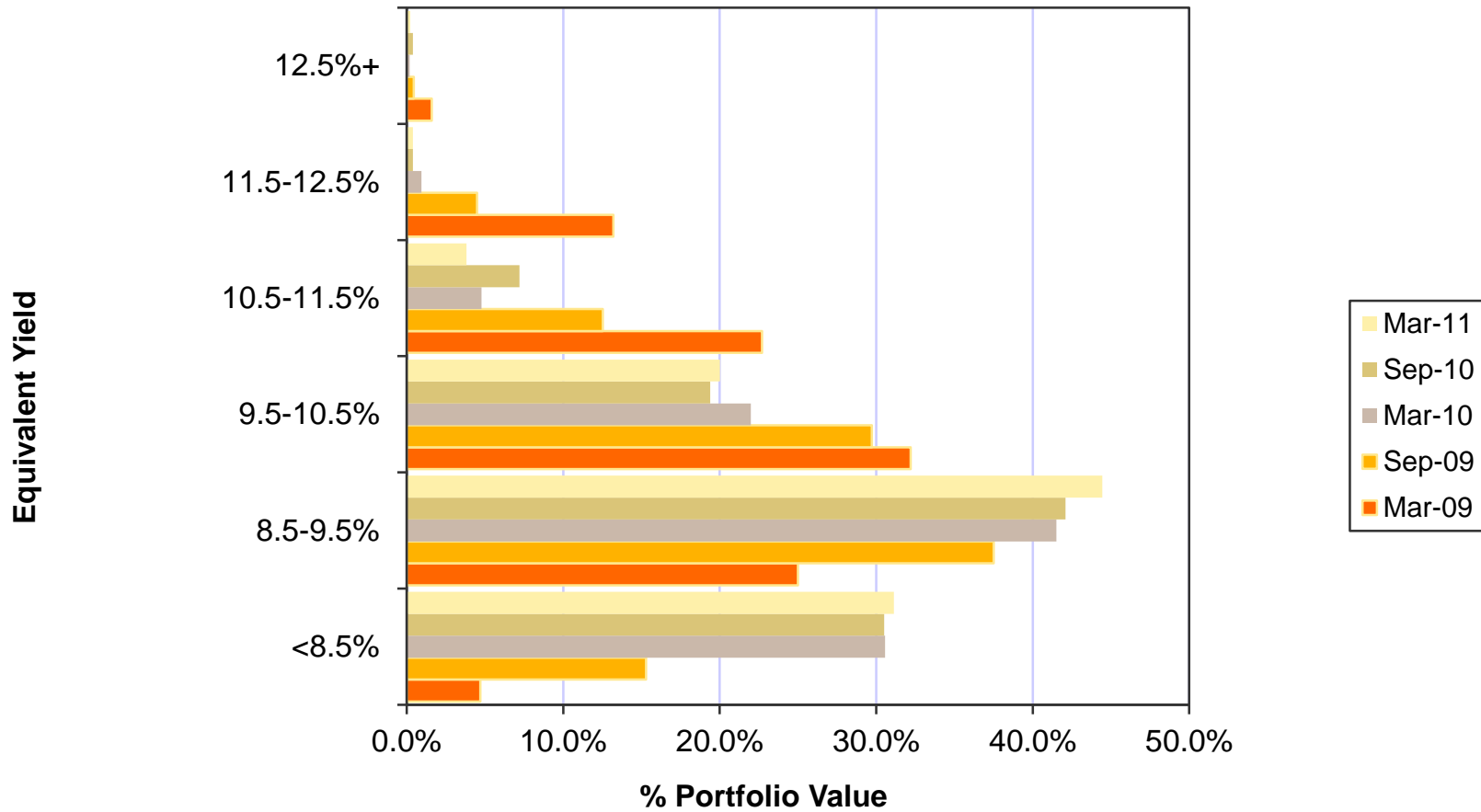
\* Excluding residential valued at 85% of vacant possession value (£17.2m)

## Portfolio yields

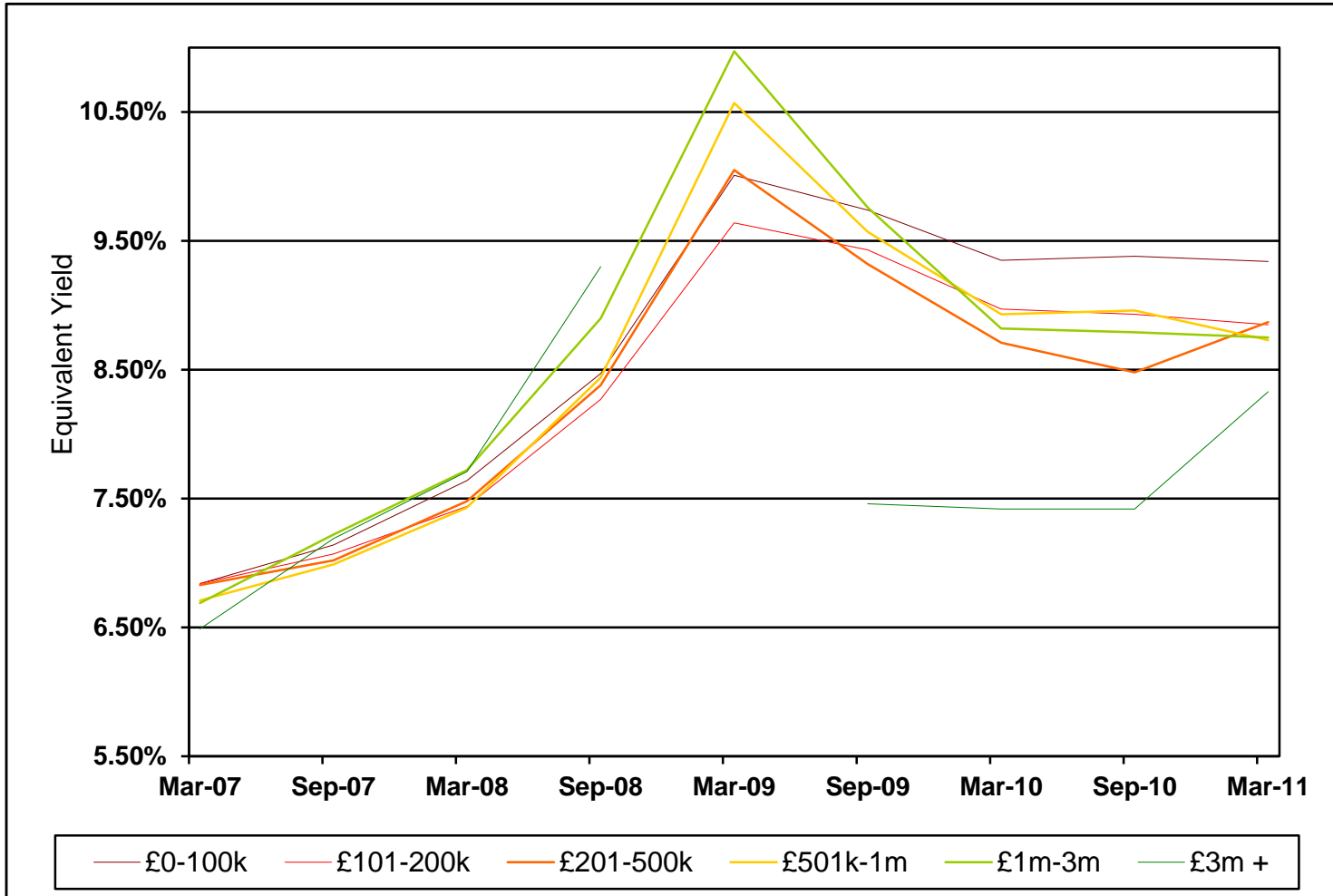
	Mar 11	Sep 10	Mar 10	Sep 09	Mar 09	Sep 08	Mar 08	Sep 07
Initial Yield	8.07%	8.03%	7.96%	8.43%	9.03%	7.57%	6.76%	6.53%
Reversionary Yield	8.79%	8.76%	8.78%	9.35%	10.08%	8.48%	7.53%	7.06%
Equivalent Yield*	8.82%	8.88%	8.86%	9.47%	10.22%	8.52%	7.53%	7.08%

\* Excluding residential

# Broad range of yields



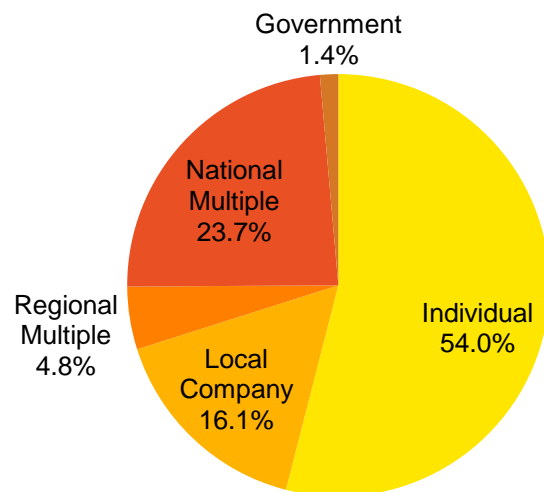
# Portfolio valuation – Movement in yields



**Smaller lot sizes remain more liquid**

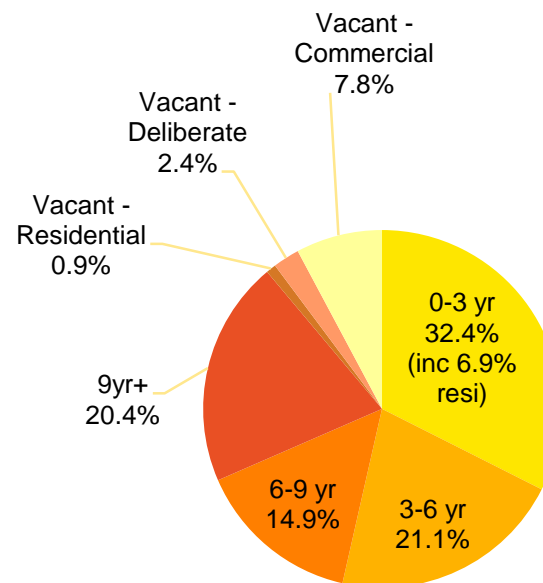
# Portfolio income (as at 31 March 2011)

## Tenant Grade



- 70.1% local independent traders

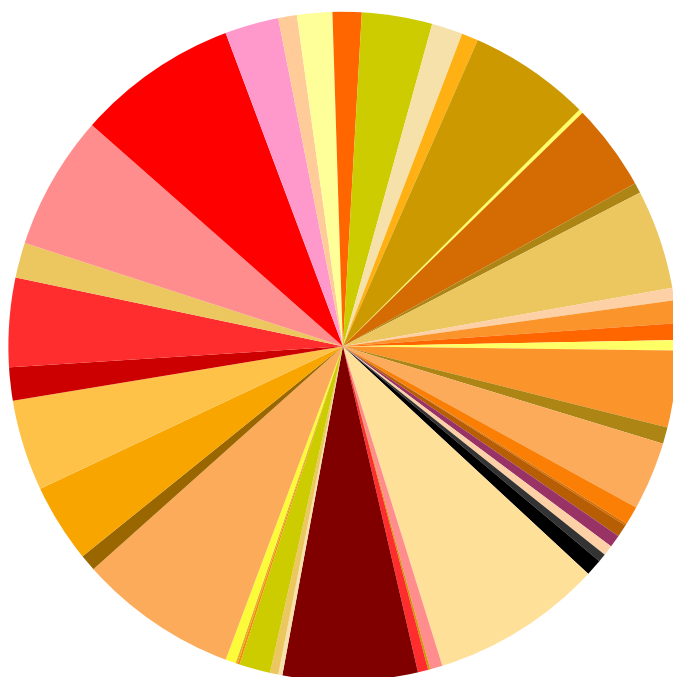
## Lease Expiry Profile



- Weighted average (excl-resi): 6.9 years or with breaks 5.6 years

## Diverse tenant base (as at 31 March 2011)

User Types as % of Rent



Access - 0.1%	Ad Hoarding - 0.1%
Amusements - 0.5%	AST - 7.7%
Bank - 0.8%	Beauty - 3.8%
Bookmaker - 4.4%	Cafe - 0%
Cards/Gifts - 1.6%	Charity - 4.3%
Chemist - 1.7%	Clothing - 6.5%
Convenience - 7.8%	Discount - 2.6%
Dry Cleaner - 0.9%	Electrical - 1.7%
Entertainment - 1.4%	Estate/Letting Agent - 3.4%
Financial - 1.5%	Florist - 0.8%
Food - 5.9%	Funeral - 0.2%
Furniture/ Homeware - 4.2%	Garage - 0%
Ground rent - 0.5%	Hairdresser - 4.8%
Hardware/Ironmongers - 0.6%	Health - 1.1%
Industrial - 0%	Jewellers - 0.8%
Leisure - 0.5%	Misc - 3.7%
Off Licence - 0.8%	Office - 3.3%
Optician - 0.9%	Parking - 0.1%
Pawnbroker - 0.6%	Pet Shop - 0.6%
Photos - 0.5%	Pub/Bar - 0.4%
Recruitment - 0.8%	Restaurant/Café - 8.3%
Satellite Dish - 0%	Sports - 0.6%
SRT - 0.1%	Stationery - 0.5%
Storage - 0%	Substation - 0%
Takeaway - 6.5%	Taxi Hire - 0.2%
Telecom Mast - 0.4%	Travel - 1.5%