



the **Local Shopping** reit plc

Preliminary results for the year ended 30 September 2008



Local Shopping

This ...



Swindon - 15 tenants - £194,649 pa

... Not This



Beverley - 1 tenant - £137,500 pa



Wandsworth - 5 tenants - £64,450 pa



Hertford - 1 tenant - £60,000 pa

Our model - Local shopping is different

- Local shops are the heart of the community, demographic trends, sustainability, congestion charging etc
- Tenants typically focussed on top-up / convenience shopping - non discretionary
- The majority are independent traders who need to work to pay the family bills
- Many national retailers are highly exposed to banks and shop managers have less control over their business
- Our rents are low at £11.72 psf , < £250 per week and < 7% of turnover
- Shorter rent free periods: 0 - 3 months compared with 18 - 36+ months and our tenants generally provide 3 months rent deposit
- Govt recognition that small companies matter - eg empty rates relief

Our model - Local shopping is different

- Capital values are typically well below replacement cost, simple buildings normally w/o service charge
- This investment sub-sector has always operated with lower gearing
- The auction market provides evidence of liquidity and sales to owner occupiers are an additional benefit
- An imperfect market, with local investors & agents - providing a great opportunity for professional investors
- Numerous asset management opportunities to exploit

Financial Highlights

- Recurring profit of £5.1m (2007: £1.7m)
- Net asset value of £93m or 112p per share (2007: £152m or 156p per share)
- Market value of portfolio £202.3m (2007: £249.3m)
- Annual rent roll of £16.1m (2007: £17.1m)
- Total debt £117m (2007: £99m) giving an LTV of 55.9% (2007: 39.6%) and gearing of 116.1% (2007: 60.9%)
- Dividend of 2.875p per share, to be paid as a non-PID

Operational Highlights

- 42 properties sold for £13.5 million at a blended yield of 6.18%, together with 56 residential flats for £3.1 million
- 46 properties acquired for £11.8 million at a blended yield of 7.68%
- 89 new lettings secured generating an annual rental income of £1,049,416 (2.6% above Market Rent), with 54 let since 31 March at a rent of £690,461 per annum
- 255 rent reviews, lease renewals and surrender and re-lettings carried out increasing rent by £383,785 per annum, an average uplift of 12.0% (5.1% above Market Rent)
- Planning consent secured for 16 flats, two retail units and seven change of use applications

Financial Performance - Year to September 2008



| Income Statement | 30 September 2008 |
|---|-------------------|
| Rental income | £16.7m |
| Property expenses | £2.6m |
| Admin expenses | £2.8m |
| Net interest expense <i>(excluding the movement in fair value of swap)</i> | £6.0m |
| Other expenses | £0.1m |
| Other non recurring items <i>(Profit on sale of swap and properties and abortive purchase costs)</i> | £0.1m |
| Profit before tax | £5.1m |
| Interest cover | 269% |
| Recurring profit per share <i>(Based on 83,110,853 shares)</i> | 6.1p |

Financial Performance (cont.)

| Balance Sheet | 30 September 2008 |
|---|-------------------|
| Valuation of portfolio | £203.7m |
| Cash held | £7.5m |
| Outstanding debt <i>(debt less outstanding loan arrangement fees)</i> | £115.9m |
| Net assets | £93.3m |
| Gearing | 116.1% |
| Loan to value ratio | 55.9% |
| Adjusted NAV per share <i>(adjusted for fair value of loan not recognised £1m) (based on 83m shares)</i> | 113p |

Dividend Policy

- To pay 100% of recurring profits as a dividend
- The final dividend payment is 2.875p per share to be paid as non-PID (normal dividend) on 31 December 08, to shareholders on the register on 12 December 08.
- Making a total dividend for the year of 5.75p
- The dividend for the year 2007/08 is covered from recurring profit
- Our aim is to pay a progressive dividend in the future but this clearly depends upon the Company's ability to create increased profits. This relies on:
 - Strength of tenant market
 - Sales
 - Share buybacks
 - Purchases

Debt Facilities – Fully Drawn

Strong Financial Foundation

Barclays

- Amount £69.2m
- Margin 75 bp
- Term until Oct 2016
- Fixed rate loan including margin at 5.6%
- ICR default 110% actual or projected
- ICR cash trap 120% actual or projected
- ICR Oct 08 168% actual

HSBC

- Amount £47.7m
- Margin 75 bp
- Term until April 2016
- Hedged loan including margin at 5.8%
- ICR default 107% actual 115% projected
- ICR Oct 08 193% actual

Key features of both loans

- **No ongoing LTV default covenants**
- **Interest only**
- **Void rate to increase to 56% before default (with debt free properties added to borrowing companies)**

Debt Facilities – Undrawn

Flexibility and firepower to exploit market opportunities

HSBC

- Existing undrawn loan facility restructured in Sep 08
- £25m term facility to be drawn by Sep 09
- £35m revolving credit facility
- Term to Oct 2016
- LTV covenant of 80% during drawdown period only
- Margin 0.80% to 1.60% depending on LTV
- ICR -

| | | |
|-----------|------------------|-------------|
| Default | -110% Projected, | Actual 120% |
| Cash Trap | -120% Projected, | Actual 130% |

Debt free properties

- Sep 08 valuation £55.2m

Portfolio Valuation – £202.3m (as at 30 Sep 2008)

| Capital Value | No. of Properties | Market Value | Equivalent Yield (EY)* | Change Mar 08 - Sep 08 |
|---------------|-------------------|----------------|------------------------|---------------------------|
| £0 – £100k | 101 | £7.9m | 8.47% | +83bps |
| £101 – £200k | 245 | £36.4m | 8.27% | +83bps |
| £201 – £500k | 185 | £55.9m | 8.38% | +90bps |
| £501k – £1m | 82 | £55.3m | 8.44% | +101bps |
| £1 – £3m | 26 | £38.0m | 8.90% | +118bps |
| £3m + | 2 | £8.8m | 9.30% | +159bps |
| Total | 641 | £202.3m | 8.52% | +99bps |

- Rent £16.1m pa, ERV £18.0m pa (7.57% Initial Yield, 8.48% Reversionary Yield)
- Existing Portfolio – Sep 07 to Sep 08: Down 17.7% (£191.7m vs £233.0m**). 142 bps rise in Equivalent Yield from 7.11% to 8.53%
- Existing Portfolio – Mar 08 to Sep 08: Down 12.5% (£199.4m vs £228.0m**). 98 bps rise in Equivalent Yield from 7.54% to 8.52%

* Excluding residential valued at 80% of vacant possession value (£16.6m)

** Adjusted for part sales

Highly Active Asset Management Since 31 Mar 2008

New Lettings - Market Remains Active

- 54 vacant units let at £690,641 pa, 0.8% above market rent – compared with 35 let at £358,775 pa in previous 6 months period
- 16 units let at £195,020 pa, 2.0% above market rent in Oct/Nov

Rent Reviews

- Reviews on 97 units increased rents by £142,323 pa; average uplift of 10.9%, 4.2% above market rent
- Average review period 4.3 years
- **Biggest increases for smallest units**

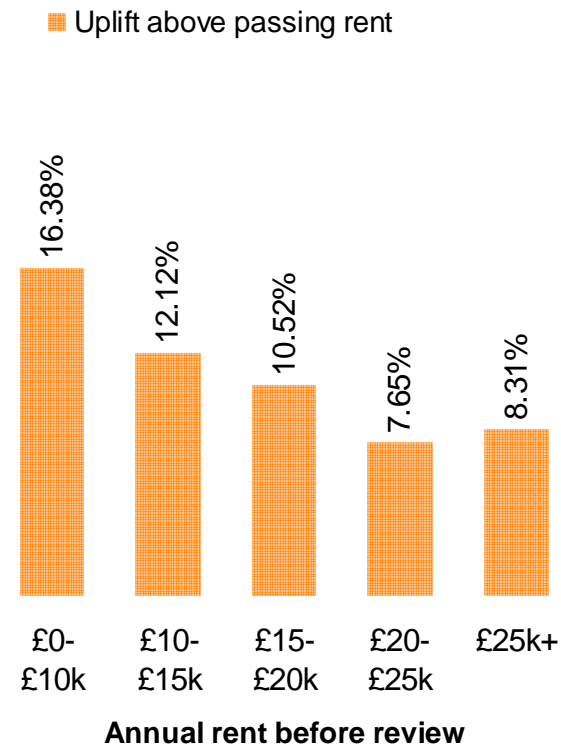
Lease Renewals

- Renewals on 28 units have increased rents by £26,085 pa; average uplift of 11.2%, 8.3% above market rent

Surrender and Relettings

- Surrender and relettings on 9 units have increased rents by £7,230 pa; average uplift of 4.8%, 1.6% above market rent

Rent Reviews – Dec 05 to date*



* Based on 286 rent reviews

Highly Active Asset Management Since 31 Mar 2008

Planning

- Planning consent secured for 14 flats and 2 retail units and 4 change of use applications
- Applications submitted for a further 12 residential units and two appeals lodged against the refusal of consent for a further 10 flats

Purchases

- 10 commercial properties bought for £3.17m at an average yield of 8.02%

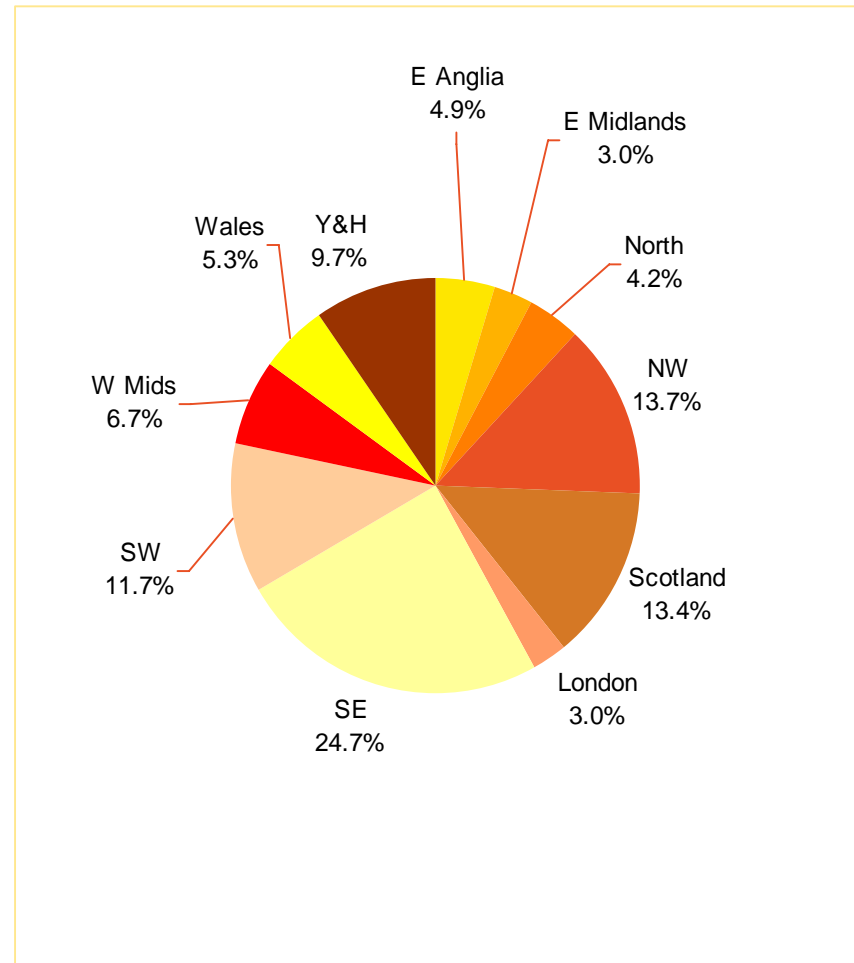
Sales

- 25 commercial properties sold for £7.27m at an average yield of 6.45% (Mar 08 valuation £7.01m)
- 54 Flats sold for £3.00m (Mar 08 valuation £2.87m)
- Further sales ongoing:
 - Post year end 5 properties sold for £0.97m at an average yield of 6.16% (Sep 08 valuation £0.82m)

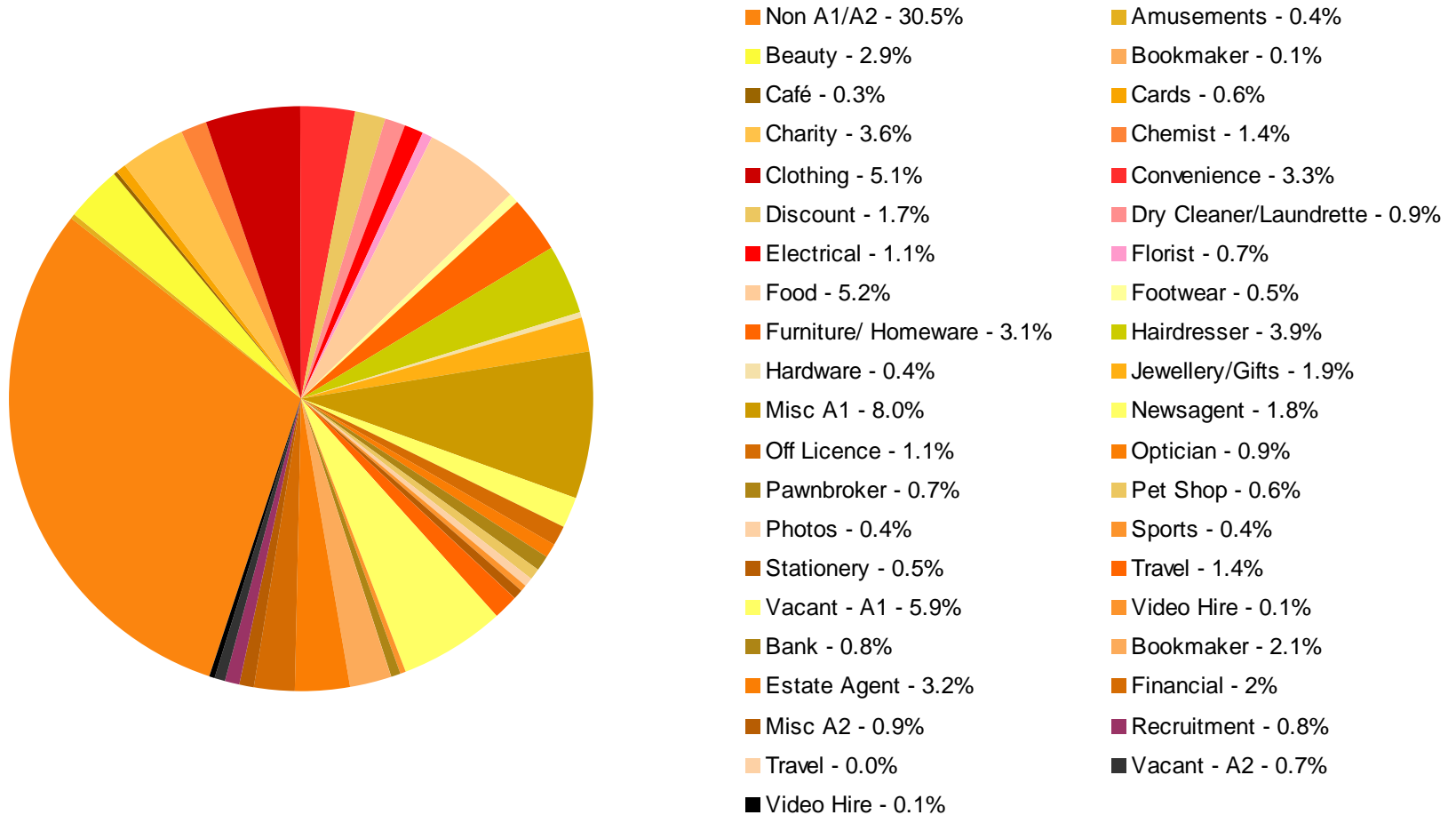
A Diversified Portfolio (data as at 30 Sep 08)

- 641 properties, 2,009 letting units
- Median property £185,000
- Largest tenant: 0.8% of portfolio rent
- Largest property: 2.8% of portfolio value
- Retail: 84.0%
- Offices: 5.3%
- Residential: 7.6%
 - valued at £16.6m (80% of vacant possession value)
- Other: 3.1%

Regional Spread

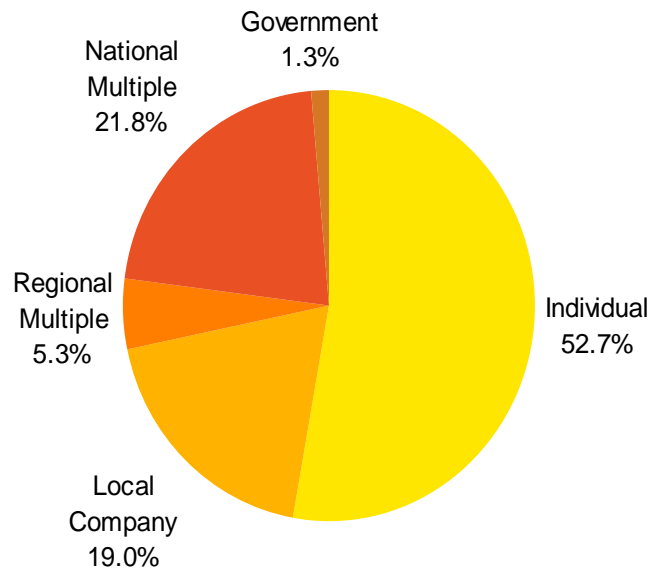


Diverse Tenant Base - A1/A2 Users by ERV (as at 30 Sep 2008)



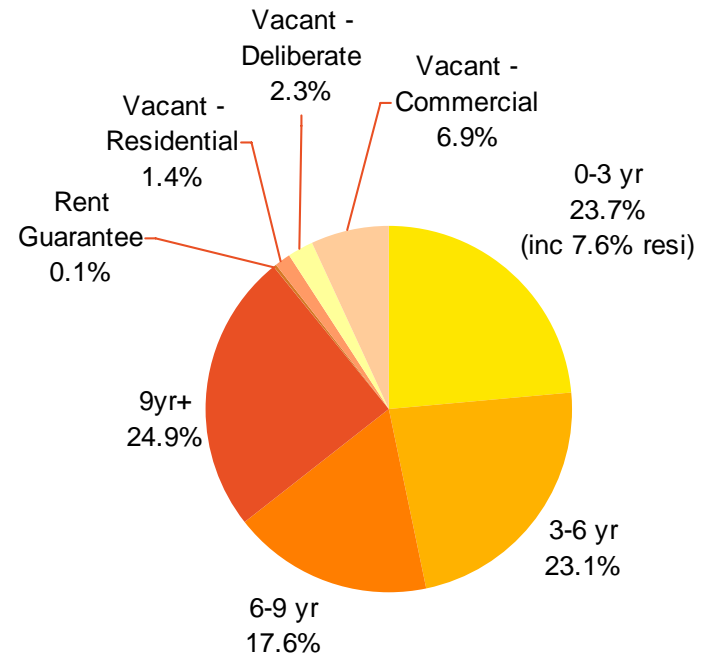
Portfolio Income (as at 30 Sep 2008)

Tenant Grade



- 71.7% local independent traders

Lease Expiry Profile



- Weighted average: 7.8 years or with breaks 6.7 years

Void Rate

| | % of Market Rent | | |
|----------------------|------------------|----------------|-------------|
| | November 2008 | September 2008 | March 2008 |
| Vacant – Commercial | 6.9% | 6.9% | 5.3% |
| Vacant – Deliberate | 2.0% | 2.3% | 2.0% |
| Vacant – Residential | 1.1% | 1.4% | 2.2% |
| Total | 10.0% | 10.6% | 9.5% |

- Commercial voids in line with expectations:
 - Continuing reduced impact of fully-let new purchases, and negative impact of fully-let sales
 - If units “under offer” are let then the November void rate would fall by 1.7%
- Deliberate voids increased to allow us to exploit change of use and reconfigure units
- Residential voids expected to fall further as units are refurbished
- Bad debts: £734,489, 4.4% of rent demanded (Sep 07 - £219,899)
- Dec 08 and March 09 Quarter Days will be challenging – we will be flexible
- Rent deposits of circa £800,000 held as at 30 Sep 08

Dealing With Voids – Weak Demand

Manchester – Units 1-5, Bishops Corner, Stretford Road



- 5 lock-up shops purchased Mar 07
- Vendor provided 12 month rent guarantees at £9,500 pa per unit, which expired Mar 08
- Limited letting interest so planning application submitted May 08 for change of use on 3 units from A1 to A3 – granted Aug 08
- Aug 08 quoting rents cut to £8,000 pa per unit
- Within 8 weeks 4 units let to three tenants at £7,000 pa to £8,000 pa per unit on 3/6 year leases with 3 year rent reviews
- Remaining vacant unit under offer at £8,000 pa

Dealing With Voids – Strong Demand

Putney – 206/208 Upper Richmond Road



- Ground floor shop and basement let at £32,000 pa (ERV £29,100 pa)
- Unit repossessed Jul 07
- Under offer Dec 08 at £17k pa yr 1, rising to £34k then £36k pa. Letting subject to being able to retail from previously unused basement
- We withdrew in Apr 08 when building regs issues with conversion of basement became too expensive/complicated to resolve
- Went back under offer May 08 at £18.5k pa yr 1, thereafter £37k pa, to well established cycle retailer
- Letting completed Jun 08

Market Outlook

Investment Market

- Liquidity is key - when can the banks start lending? - perhaps late 2009?
- Valuers are very cautious
- Low interest rates make most property purchases highly accretive
- Increased unemployment will reduce confidence
- High Govt and personal debt could prolong the downturn as degearing takes place
- Tenant default will increase next year causing interest cover breaches resulting in more distressed property sales

Market Outlook

Occupier market

- We expect to see an increase in tenant default as the economy battles with recession
- New lettings will occur but cashflow is king and we will be flexible.
- Rent reviews and lease renewals will see some rental growth
- Efficient rent collection will be important combined with a flexible approach to tenants in difficulty

Business Outlook

- Asset management is vital to protect value and provide opportunities for the future
- We expect voids to increase but we are strongly focussed on minimising the impact
- Values will continue to fall over the next 12 months
- We believe there will be opportunities to purchase next year and we are talking to potential partners
- We are discussing with lenders how best to work with them to manage distressed debt using our unique asset management skills

Business Outlook (cont.)

- If appropriate we will purchase our shares, as current pricing is accretive to both NAV and EPS
- We will continue to sell ex-growth properties
- LSR has a solid financial base. We are a business looking forward to exploiting the opportunities we believe will be forthcoming

Contacts

LSR

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