



the **Local Shopping** reit plc

Preliminary results for the year ended 30 September 2011



Implementing our Strategy

- **To optimise the value of, and income from, existing assets**
 - Recurring profit increased by 10.3% to £3.2m, compared to the corresponding period last year (twelve months to 30 September 2010: £2.9m)
 - Void rate fell to 10.6% from 11.3% as at 30 September 2010
 - Bad debt write-offs and provisions fell 12.2% to £806k from £918k, as at 30 September 2010
- **To use our unique business platform and management skills to grow revenue**
 - £100m Pramerica joint venture successfully implemented and operating
 - 50/50 Joint Venture announced with UK financial Institution to acquire distressed commercial property
 - Currently three management contracts from banks

Pramerica forward funding in Halewood

Old style local shopping 2011



New style local shopping 2012



Our sector: Occupiers

- Continued resilience from our tenants with turnover reduced. However we are cautious about next year due current economic challenges of weak growth, high inflation public spending cuts etc but currently we have no negative indications in our business
- Our rents are low at £11.14 psf, < £232 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 remained robust although less successful retailers are still in danger with rents under pressure for larger units
- Lettings under offer remain high at £318k pa
- We have no turnover rents

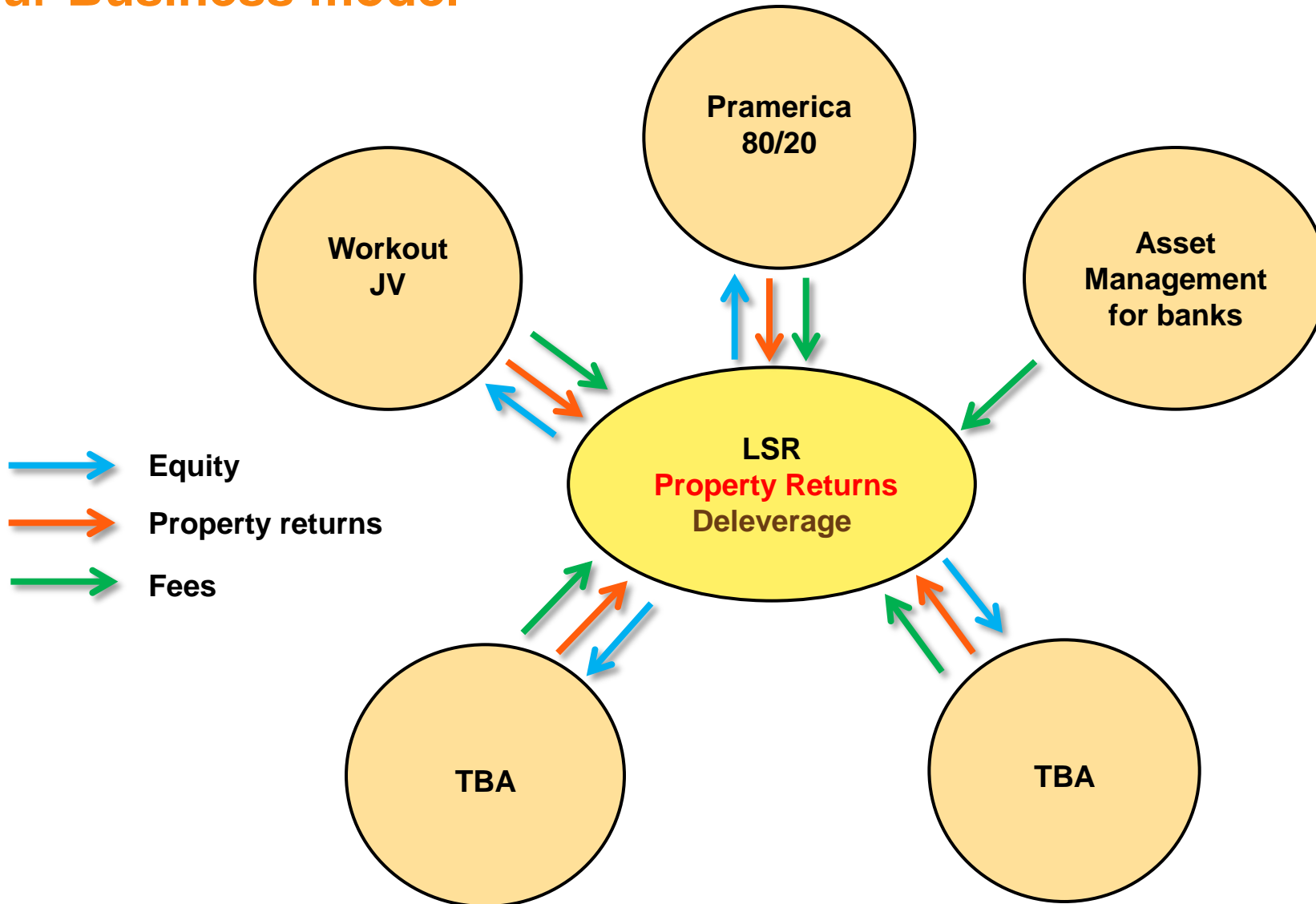
Our sector: Investment

- The past six months have seen a flat market
- Stock picking is still the key due to over rented property
- Yields have stabilised in our market
- Continued visibility exists on investment yields from the auction market and private treaty activity. Auction volumes have fallen slightly together with the success rate
- Increasing owner occupier interest in purchasing with prevailing low interest rates
- Bank debt tightening with margins increasing significantly in the past 3 months due to Basle ii & iii capital costs. Lenders are looking for larger scale solutions via loan book disposals
- Banks continuing to put pressure on borrowers 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 1.4% (1.7%) and 5 year rate at 1.8% (2.4%)
- The banking sector will start returning to normal in 3-5 years (pre-2002 levels of activity)
- Larger properties (non institutional) will continue to trade at a discount
- Banks pull the plug on more borrowers and also will sell loan books to private equity who will then sell into the market

Our Business model



Growth strategy

- Create joint ventures and funds in aligned sectors using our local asset management skills
- Corporate, portfolio or individual acquisitions using our REIT status where possible
- Assets management fees will drive income growth
- Distressed property or loan management for third parties
- Loan acquisition
- Local Authorities & Housing Associations who need asset management expertise to enable capital release
- Continue to manage actively our existing assets and sell ex-growth stock

50/50 Work out JV

- Established 28th September 2011
- To acquire distressed commercial property from the institution
- Equity commitment £10m, paid pro rata on purchase with debt provided by the institution. LSR equity funded from property disposals and/or facility drawdown
- Target 15% geared IRR investment return
- LSR will receive an acquisition fee, management fee and a promote
- Term - 5 years
- Exit options include, portfolio disposals, break up, LSR buy in, etc

Dividend

- Committed to pay 100% of recurring profits earned over the full year
- A dividend of 2.1p (totalling 4.0p for the year), to be paid as a non PID by 31 December 2011 to shareholders on the register on 9th December 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
 - Costs:- rates, energy, commitment fees etc
 - Growth of JV vehicles / assets under management
 - Sales and purchases
 - Interest rates

Results for the year ended 30 September 2011

Income Statement	30 September 2011	30 September 2010	Change
Rental income	£16.1m	£15.5m	+3.9%
Property expenses	£2.6m	£2.6m	-
Admin expenses	£2.7m	£2.6m	+6.3%
Net interest expense <i>(excluding the movement in fair value of swap)</i>	£7.5m	£7.4m	+1.4%
Recurring profit	£3.2m	£2.9m	+10.3%
Interest cover	215%	211%	-
Recurring profit per share <i>(Based on 81,382,514 shares)</i>	4.0p	3.6p	+11.1%

Results for the year ended 30 September 2011

Balance Sheet	30 September 2011	30 September 2010
Balance Sheet valuation	£190.1m	£194.1m
Cash held	£4.5m	£6.1m
Outstanding debt <i>(debt less outstanding loan arrangement fees)</i>	£130.6m	£131.7m
Adjusted net assets <i>(adjusted to exclude fair value of financial derivatives)</i>	£63.1m	£66.8m
Gearing <i>(excluding restricted cash)</i>	234%	218%
Loan to value ratio <i>(including substitution cash)</i>	68.5%	67.3%
Adjusted NAV per share <i>(adjusted to exclude fair value of financial derivatives) (based on 81m shares)</i>	76p	81p

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	Oct/2016
HSBC fully drawn term loan	£47.7m	£47.7m	-	No	Yes	Apr/2016
HSBC term loan	£25.0m	£10.5m	-	Yes	Yes	Oct/2016
HSBC revolver facility	£35.0m	£3.9m	£31.1m	Yes	Yes	Oct/2016
Total		£131.3m				

HSBC term loan was cancelled in October 2011

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 going forward

Portfolio valuation: £189.2m (as at 31 September 2011)

- Initial Yield 8.16%
- Reversionary Yield 8.77%
- Equivalent Yield* (EY) 8.83%
- Rent pa £16.2m
- Market Rent pa £17.5m
- Portfolio 4.2% over-rented (3.4% Sep 10)

Like for like – adjusted for purchases/sales

- Rents growing – falling void rate
- Fall in rental values slowing
- Valuation broadly flat: last 6m 412 properties unchanged; 87 increased; 148 decreased

	Change last 6m	Change Sep10-Sep 11	Change Sep 09-Sep 10	Change Sep 08-Sep 09	Change Sep 07-Sep 08	Change Mar 07-Sep 07
Value	-0.2%	-0.4%	+3.5%	-13.2%	-17.7%	-4.1%
Rent pa	+1.0%	+0.7%	-1.0%	-3.6%	-5.4%	-1.5%
Market Rent pa	-0.3%	-0.6%	-2.3%	-4.4%	-1.2%	+1.1%

* Excluding residential valued at 85% of vacant possession value (£18.3m)

Resilient Portfolio* (data as at 31 September 2011)

Diversified

- 648 properties: 2,034 letting units
- Largest tenant: 2.7% of portfolio rent (Tesco)
- Largest property: 1.7% of portfolio value

Affordable Rents

- Average rent per shop: £12,031 pa, £11.14 psf

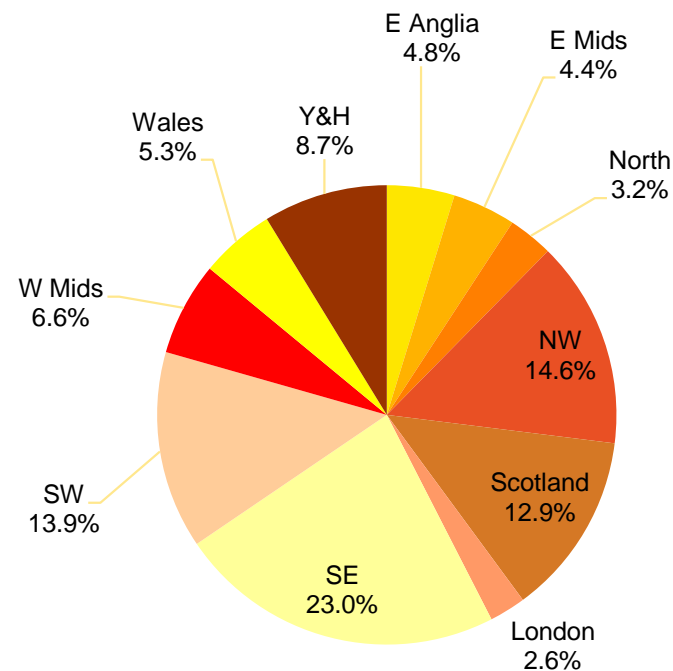
Small Lot Sizes

- Median property value: £170,000

Sector Spread

- Retail: 83.9%
- Offices: 4.5%
- Residential: 9.0%
- Other: 2.6%

Regionally Spread



* Full breakdown in supplementary information

Asset management

New Lettings – healthy demand, falling void rate

- Flexible approach – maximising income
- 130 vacant units let at £1,210,240 pa (FY10: 107 at £983,584 pa) – last 6m: 66 at £584,150 pa
- Lettings 0.9% below Market Rent - ignoring 32 lettings on stepped increases taking rent above Market Rent
- Average rent free period 74 days (FY10: 69 days) – last 6m 68 days

Rent Reviews/Lease Renewals etc

- Rent reviews on 205 units increased rents by £105,5907 pa; average uplift of 4.3%, 7.5% above market rent
- Lease renewals on 54 units increased rents by £18,303 pa; average uplift of 3.0%, 3.2% above 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 21 flats, three retail units and the sub-division of two shops to provide an additional four smaller retail units
- Building out where yields justify -14 flat conversions completed: 11 let at £70,680 pa with three held for sale
- Twelve change of use consents from A1 (shops) and D1 (institutional) to higher value uses

Purchases and sales

Purchases – highly selective

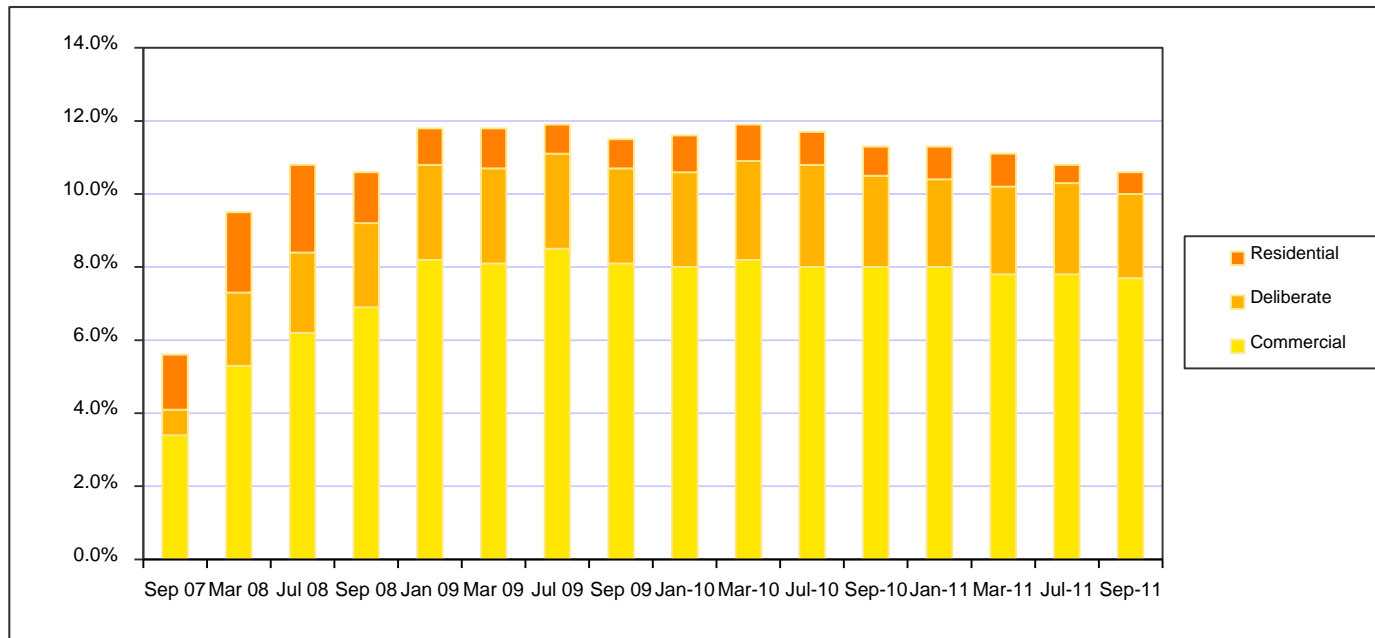
- Since 30 September 2010: six properties purchased for £1.83m at an average yield of 7.09% - last 6m: 1 purchased for £0.25m
- Five were convenience stores let on long leases to Tesco (RPI rent reviews), Co-op (reversionary) and Martin McColl (fixed rent reviews)
- Freehold interests acquired in two properties owned long leasehold - providing greater control
- Acquired an option to purchase land adjacent to a small supermarket in St Helens with development potential

Sales – ex-growth properties and flats

- 17 properties (including 1 part sale and 4 flats) sold for £3.56m at an average yield of 7.38% (8.5% above valuation) - last 6m: 4 sold for £0.40m at an average yield of 7.82% (12.6% 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
- Good interest from tenants and owner occupiers wishing to buy their units
- Further sales of ex-growth properties planned to release funds for reinvestment

Void rate – 70 basis point fall since 30 September 2010

- Overall voids 10.6% - core commercial 7.7%, deliberate 2.3%, residential 0.6%



- Pipeline healthy: at 30 September 2011 there were 27 units under offer at £318,180 pa
- Bad debts & provisions down 12.2% to £806,632 (FY10: £918,452; FY09: £1,043,297)
- Rent deposits rose to £970,000 (£940,000 at 30 September 2010)

Pramerica JV – highly selective acquisitions

Acquisitions - £100m firepower

- 350+ opportunities reviewed – over £850m
- 13 properties acquired or committed for £22.3m – including forward funding of £7.2m Halewood District Centre; two properties under offer for £2.1m
- 9 properties re-valued from £10.7m to £11.6m (+ 8.0%) by Allsop as at 30 Sep 11 – driven by selective (often off-market) purchases and asset management

Structure

- Investing in local parades and neighbourhood centres with rental growth and asset management potential
- 80:20 equity split - Pramerica (£30m) : LSR (£7.5m)
- Target return: minimum 15% geared IRR
- Debt from HSBC: currently £8.8m, of which £4.4m is hedged – current all in cost of 3.45%
- LSR receives an acquisition fee, management fee and a promote

Cheltenham - £1.60m



- Suburban neighbourhood parade
- Co-op lease renewal ongoing – paying only £6.42 psf
- Potential to improve line-up and sell off flats
- 8.8% IY, 9.9% RY

“Work out” JV – established and first acquisitions

Structure

- Effective 28 September 2011
- Partner: an established UK financial institution
- Workout vehicle to invest in commercial investment properties across the UK – particularly local shopping assets
- 50:50 equity split – each partner committing £5m
- Debt provided by Partner where appropriate
- LSR receives an acquisition fee, management fee and a promote

Initial Portfolio - £3.39m



- 3 convenience investments let to Co-op – 10 year leases
- Tyre centre let to NTS (includes their head office) – 7 year lease
- 7.8% IY

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

Contacts

LSR

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Supplemental Information

Portfolio valuation: £189.2m (as at 30 September 2011)

Capital Value	No. of Properties	Market Value	EY*
£0 – £100k	147	£11.0m	9.35%
£101 – £200k	245	£36.5m	8.96%
£201 – £500k	154	£49.9m	8.84%
£501k – £1m	76	£50.7m	8.75%
£1 – £3m	24	£34.8m	8.74%
£3m +	2	£6.3m	8.38%
Total	648	£189.2m	8.83%

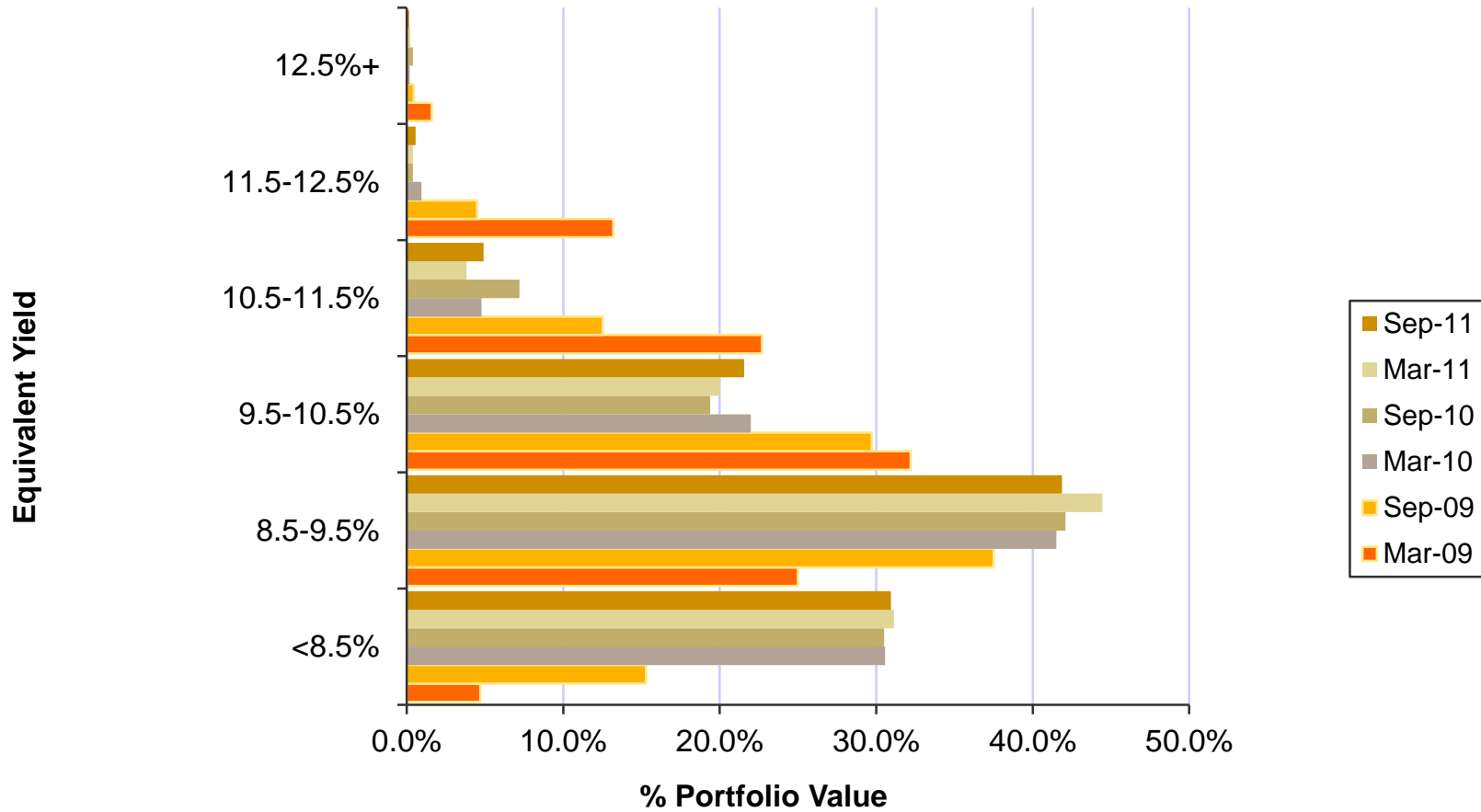
* Excluding residential valued at 85% of vacant possession value (£18.3m)

Portfolio yields

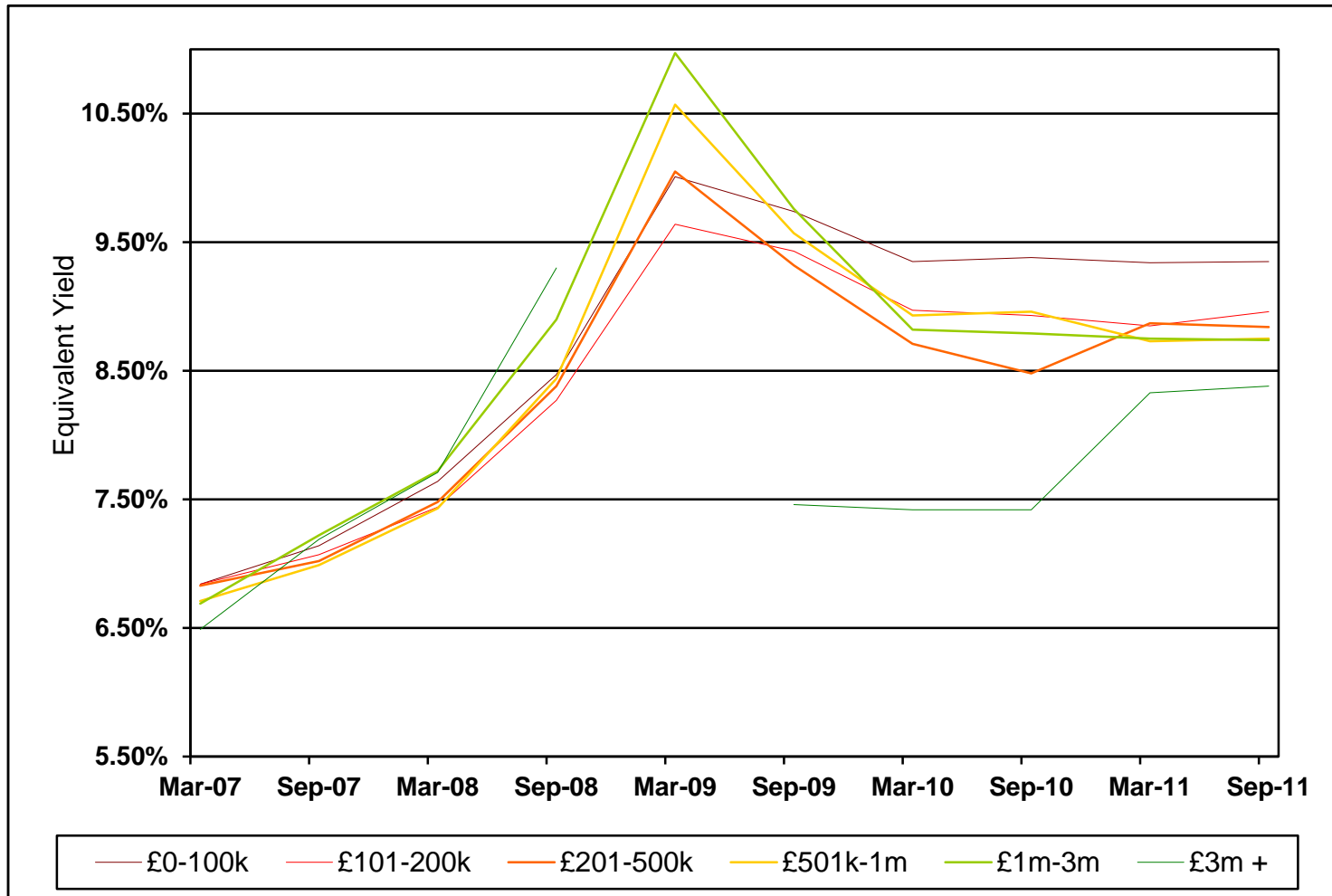
	Sep 11	Mar 11	Sep 10	Mar 10	Sep 09	Mar 09	Sep 08	Mar 08	Sep 07
Initial Yield	8.16%	8.07	8.03%	7.96%	8.43%	9.03%	7.57%	6.76%	6.53%
Reversionary Yield	8.77%	8.79	8.76%	8.78%	9.35%	10.08%	8.48%	7.53%	7.06%
Equivalent Yield*	8.83%	8.82	8.88%	8.86%	9.47%	10.22%	8.52%	7.53%	7.08%

* Excluding residential

Broad range of yields



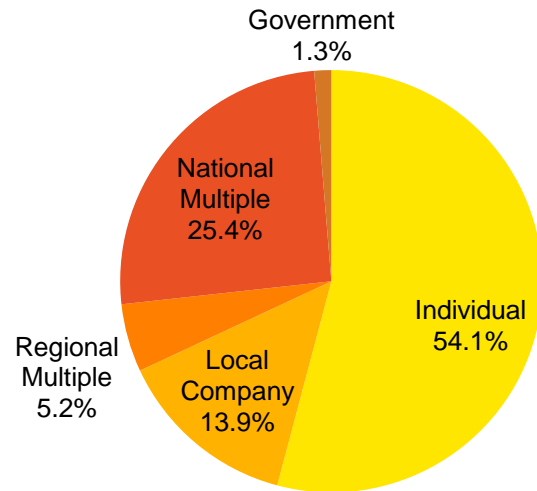
Portfolio valuation – Movement in yields



Smaller lot sizes remain more liquid

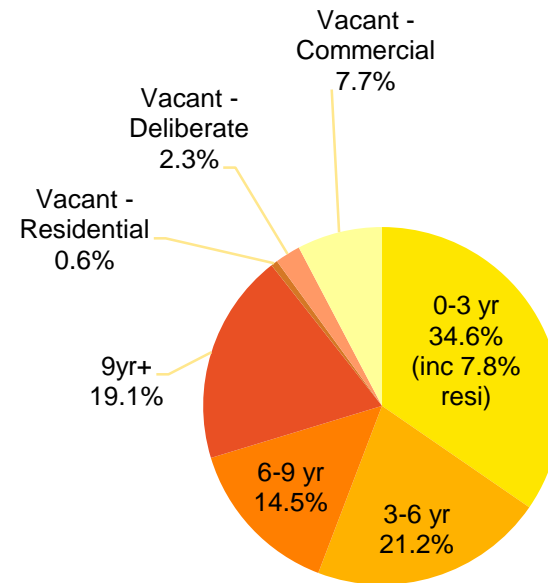
Portfolio income (as at 30 September 2011)

Tenant Grade



- 68.0% local independent traders

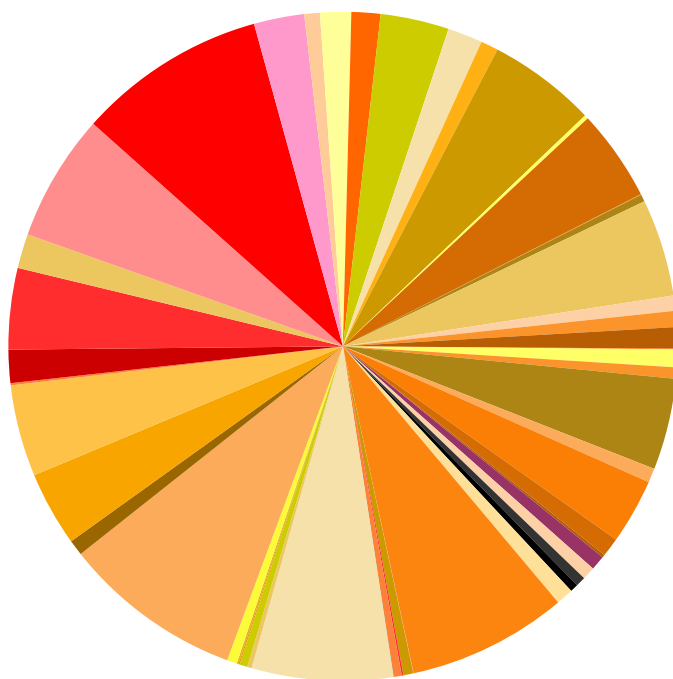
Lease Expiry Profile



- Weighted average (excl-resi): 7.4 years or with breaks 6.1 years

Diverse tenant base (as at 30 September 2011)

User Types as % of Rent



Access - 0.1%	Ad Hoarding - 0.1%
Amusements - 0.5%	AST - 8.7%
Bank - 0.8%	Beauty - 3.6%
Bookmaker - 4.4%	Café - 0.1%
Cards/Gifts - 1.6%	Charity - 3.9%
Chemist - 1.6%	Clothing - 6.1%
Convenience - 9.1%	Discount - 2.4%
Dry Cleaner - 0.7%	Electrical - 1.5%
Entertainment - 1.4%	Estate/Letting Agent - 3.3%
Financial - 1.7%	Florist - 0.8%
Food - 5.2%	Funeral - 0.2%
Furniture/ Homeware - 4.4%	Garage - 0%
Ground rent - 0.3%	Hairdresser - 4.7%
Hardware/Ironmongers - 0.7%	Head rent - -0.8%
Health - 1%	Industrial - 0%
Jewellers - 0.9%	Leisure - 0.5%
Misc - 4.4%	Off Licence - 0.7%
Office - 3.1%	Optician - 0.9%
Parking - 0.1%	Pawnbroker - 0.7%
Pet Shop - 0.6%	Photos - 0.5%
Pub/Bar - 0.4%	Recruitment - 0.8%
Restaurant/Café - 7.7%	Satellite Dish - 0%
Sports - 0.5%	SRT - 0.1%
Stationery - 0.4%	Storage - 0%
Substation - 0%	Takeaway - 6.8%
Taxi Hire - 0.2%	Telecom Mast - 0.4%