



the Local Shopping reit plc

## **The Local Shopping REIT plc Interim Management Statement**

(London: 7 August 2008) – 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 2008.

### **Highlights**

- Successful sale of 19 ex-growth properties for a total of £4.65 million, 3.1% above their March 2008 valuation
- 54 flats sold for £3.00 million, 4.6% above their March 2008 valuation
- Seven properties acquired for a total consideration of £2.73 million, bringing the total portfolio to 640 properties, comprising more than 2,000 letting units
- Average initial yield on new purchases of 8.01%
- Annual rental increased by over £128,000 through active asset management, producing uplifts above market rent:
- 32 vacant units successfully let at an average of over 7% above Market Rent – increasing annual rent by £406,091 per annum
- Progress with planning consents and applications achieved during the period included:
  - Planning consents granted for 14 flats and two retail units, increasing asset values
  - Planning applications submitted for a further 20 flats
- £6.11 million earnings accretive share buyback
- Business well positioned to exploit buying opportunities arising from current market conditions

### **Market Outlook**

While our tenants are not immune from weakness in the wider economy, we have been encouraged by the relative strength of the local shopping market over the last four months. This is reflected by our success in letting vacant units and driving up rents at reviews and lease renewals. Although values continue to fall in our sub-sector, there are very few genuinely active buyers and sellers which has

therefore resulted in some erratic pricing. The imperfect nature of our market has allowed us to make a number of sales at levels above our March 2008 valuation but such opportunities are becoming less frequent, particularly as we enter the traditional summer lull.

In the last few weeks we have seen the first signs of genuinely distressed selling in our market. However, we believe it will be 2009 at the earliest before there will be a substantial number of properties for us to buy at discounted prices. In the meantime we are focused on ensuring the Company retains its strong financial position which will enable us to take advantage of these buying opportunities when they arise and thereby ensure the long-term growth of the Company through all market conditions.

### **Asset Management**

Since 31 March 2008, the Company has continued to explore ways to maximise the value creation potential of the portfolio by taking a proactive asset management approach and has successfully implemented the following initiatives:

- Carried out rent reviews on 61 units, increasing the rent by £107,239 per annum (an average uplift of 11.7%, and 4.4% above Market Rent)
- Renewed leases on 16 units adding a total of £13,273 per annum (an average uplift of 10.5% and 11.1% above Market Rent)
- The surrender and re-let of five units, adding £7,730 per annum (an average uplift of 7.4% and 2.8% above Market Rent)
- Let 32 vacant units at a rent of £406,091 per annum (7.0% above Market Rent).

In line with our drive to deliver value from the under-used upper parts of some properties and adjacent unused land, we have submitted planning applications for 20 flats during the period under review. In addition, we were granted consent for the demolition of a building in Ross-on-Wye and its replacement with 13 flats and a retail unit, and in St Neots we were granted consent to build a retail unit and flat on unused land adjoining our existing property. We were also granted consent for a change of use from A1 (shops) to A3 (café/restaurant) on three units in Manchester.

During the period, our commercial void rate rose to 6.2% (March 2008 – 5.3%). If the units currently under offer are let the void rate will fall back to 4.5%. By way of comparison the level of retail void in the IPD Monthly Index was 6.4% at the end of June. Residential and deliberate voids remained broadly level at 2.4% and 2.2% (March 2008 – 2.2% and 2.0%).

## **Acquisitions and Sales**

During the last few months we have been very selective in our acquisition strategy, only looking to purchase properties where we can identify an immediate upside. Since 31 March 2008 (when the portfolio was valued at £237.9 million), the Company has acquired a further seven properties, in seven separate transactions, for a total consideration of £2.73 million. The average initial yield of these purchases is 8.01%.

In line with our stated strategy of selling ex-growth and lower yielding properties, we have sold 19 properties during the period for £4.65 million, at an initial yield of 6.54% (March 2008 valuation £4.51 million). We have also unconditionally exchanged contracts to sell a property in Glasgow for £1.53 million, at an initial yield of 5.95% (March 2008 valuation £1.46 million). Despite an extremely weak sales environment, we are also pleased to announce that, since 31 March 2008, we have sold 54 flats for £3.00 million at £132,000 above their March 2008 valuation.

As a result of these acquisitions and sales, the Company now has a portfolio of 640 properties comprising more than 2,000 letting units.

## **Financing**

The Company has debt outstanding of £115.5 million at an average interest rate of 5.6%. It has an additional committed and undrawn long term facility of £102.3 million from HSBC. During the period the Group took advantage of an increase in swap rates to cancel some of its swap agreements held in excess of the outstanding debt. This crystallised a profit of £866,000.

## **Share Buybacks**

On 2 July 2008 the Company purchased 9,405,187 shares at 65 pence which is both NAV enhancing and earnings accretive. On the same day the Company cancelled 7,649,620 shares which had been held in Treasury and transferred those purchased to Treasury. After these transactions the Company has 92,843,170 in issue of which 9,284,317 shares are held in Treasury.

## **Nick Gregory, LSR's Joint Chief Executive Officer, said:**

“Despite the weak economic environment, our asset management team has been very effective in generating rental uplifts of over £128,000 per annum from rent reviews and lease renewals. The successful letting of 32 retail units since 31 March demonstrates the robustness of our model and our

underlying tenant base. We are also extremely pleased to have succeeded in selling 54 residential units for prices above their March valuations.”

**Mike Riley, LSR’s Joint Chief Executive Officer, added:**

“We are beginning to see the first signs of distressed selling in our market. Our efforts over the last few months have been focused on ensuring the Company is in a strong position to exploit the opportunities that this selling will provide and thereby underpin the long-term growth in the Company’s asset base. “

***For more information please contact:***

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***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 2008 the Company’s portfolio comprised 640 properties, with over 2,000 letting units.

For further information on LSR, please visit [www.thelocalshoppingreit.co.uk](http://www.thelocalshoppingreit.co.uk).

For further information on REITS, please visit [www.reita.org](http://www.reita.org).