



the Local Shopping reit plc

The Local Shopping REIT plc Interim Management Statement

London: 9 February 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 January 2010.

Highlights

- Letting market remains active – 28 retail units successfully let at a total rent of £244,180 per annum
- Active asset management continues to enhance values and income streams:
 - Annual rental income increased by more than £26,000, producing uplifts above Market Rent
 - Planning consent obtained for 19 flats
 - Core commercial void rate reduced to 8.0% (September 2009: 8.1%)
- Successful sale of 10 ex-growth properties for a total of £2.41 million, 0.8% above their September 2009 valuation
- Purchase of seven properties for £1.56 million at an average net initial yield of 9.33%
- No loan-to-value default provisions on existing debt and £60.0 million of unused facilities
- Company well-positioned to exploit buying opportunities arising from current market conditions
- Discussions ongoing with a number of lenders about assisting them with distressed property situations, building on the Company’s mandate to manage a small mixed-use portfolio in the North West at the request of a large UK bank.

Market Outlook

In the occupier market, demand for our smaller units remains steady and our willingness to adopt a flexible and proactive approach to leasing space is reflected in the £244,180 per annum of lettings completed since 30 September 2009. Whilst some tenants are still experiencing difficult trading conditions as a result of the continuing effects of the economic downturn, our diverse tenant base of smaller, often independent traders continues to perform relatively well and tenant defaults remain in line with previous quarters. Encouragingly, certain types of tenants that were affected particularly badly by the economic crisis, such as estate agents, are seeing an improvement in their business activity. A good example is the case of one tenant, an estate agent in Plympton with four other branches, which has recently reopened its shop, having previously closed it for 13 months.

Within the local shopping sub-sector of the retail market, there is good evidence that prices have risen further since 30 September 2009, as private investors remain net buyers in their search for yield. The strength and longevity of the recovery in values will depend on both the health of the occupier market and the outlook for interest rates. As discussed above, conditions in occupier markets remain challenging, while the outlook for interest rates is the subject of conflicting predictions resulting from the uncertainty surrounding the prospects for the UK economy. A sustained and strong recovery will also require a substantial rise in bank lending, something we believe is unlikely in the short term. Given the uncertain outlook for the economy we are therefore maintaining our cautious view of the prospects for the investment market.

As a result of our focus on maximising the value of our existing assets and recycling our ex-growth stock, the Company continues to maintain a strong financial position. In addition, 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. We are in discussions with a number of lenders on how we may be able to use these valuable skills to help them to deal with distressed property situations and, as reported in December, we are now managing a small mixed-use portfolio in the North West at the request of a large UK bank. We believe that such distressed situations may provide us with compelling opportunities that have the potential to generate substantial returns for our shareholders. We therefore intend to deploy our financial resources cautiously over the coming months until we have greater visibility on the nature and extent of these opportunities so that we retain the flexibility to deploy our financial firepower quickly to secure the most accretive transactions.

We believe that 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.

Asset Management

Since 30 September 2009, the Company has continued to manage its portfolio actively and adopted a flexible leasing policy, which has resulted in the letting of 28 vacant units at a total rent of £244,180 per annum. While this was 8.6% below Market Rent at commencement, 10 of these new lettings

incorporate stepped rent increases, which we have ignored in our comparison. These 10 lettings were at an initial rent of £94,440 per annum rising to £124,000 per annum over the first three years of their leases, compared with a Market Rent of £116,640 per annum. The remaining 18 units were let at a small discount (0.4%) to Market Rent. The letting pipeline also remains healthy, with 24 units under offer, as at 31 January 2010, at a combined rental of £290,020 per annum. In addition, we completed rent reviews on 58 units, increasing rental income by £21,216 per annum, representing an average uplift of 2.5%, and 10.2% above Market Rent. We also renewed 11 leases, increasing rental income by £5,225 per annum at an average uplift of 6.6% and 2.5% 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 30 September 2009, we have secured planning consent for 19 flats and the reconfiguration of four retail units. We have also obtained two change of use consents on vacant retail units from A1 (shops) to A5 (hot food takeaway), which will significantly improve their letting prospects.

While trading conditions remain challenging, tenant defaults and associated bad debts have remained in line with our expectations. Encouragingly, despite this difficult environment, our success in letting vacant retail units has led to a small reduction in the core commercial void rate to 8.0% (September 2009: 8.1%). However, the overall void rate has risen during the period to 11.9% (September 2009: 11.4%). The increase has arisen from a rise in the residential void rate to 1.3% (September 2009: 0.7%). This is largely due to the recent completion of 10 flats, which were converted from vacant space above our shops, together with a smaller rise in vacancy within the existing residential portfolio. Based on current demand, we anticipate that the residential void rate will fall over the coming months. The deliberate void rate remained constant at 2.6% as we replaced the recently completed flats with further conversion opportunities, including a recently vacated property in Bristol where we are working up plans to convert a large unit with an A2 (financial) consent into four retail units with six flats above.

Acquisitions and Sales

The well reported recovery in property values during the second half of 2009 appears to be continuing, with vendors' pricing aspirations rising accordingly. While deal flow is up, we remain highly selective in order to ensure that we pay appropriate and competitive prices. Since 30 September 2009 we have purchased seven properties for £1.56 million, at an average yield of 9.33%. In addition, we have exchanged contracts to purchase a further two properties for £1.83 million, at an average yield of 8.61%.

In line with our ongoing policy to sell ex-growth properties, we have sold 10 properties, including one part disposal, since 30 September 2009 for a total of £2.41 million, at an average yield of 8.23% (of

which four were contracted prior to 30 September, with a total sale price of £1.47 million). These sales were at an average of 0.8% above their September 2009 valuation.

As a result of these sales, the Company now has a portfolio of 625 properties comprising nearly 2,000 letting units.

Financing

The Company has two fully drawn loans with debt outstanding of £116.9 million at an average interest rate of 5.67%. The term of both loans runs until 2016 and there are no ongoing loan-to-value default provisions. LSR also has an additional, committed and undrawn long-term loan facility from HSBC of £60 million. This undrawn loan comprises a £35 million revolving credit facility and a separate £25 million term facility. In November 2009, we finalised an agreement with HSBC to extend the draw down period of the term facility until 31 January 2013. In exchange for extending the draw down period we have agreed to an 85% loan-to-value covenant on the undrawn loan together with an increased margin varying between 1.2% and 1.6% depending on the loan-to-value ratio and additional undrawn commitment fees.

Nick Gregory, LSR's Joint Chief Executive Officer, said: "Given the uncertainty in the underlying economic fundamentals, we have maintained our focus on value enhancing asset management initiatives and tenant management. This has enabled us to improve the levels and quality of our rental income, with better terms being incorporated at rent review and new rents being agreed at rates that we think will outperform industry benchmarks over the longer term."

Mike Riley, LSR's Joint Chief Executive Officer, added: "We remain highly selective when assessing potential acquisition opportunities and this, in addition to our prudent approach to managing the business, will ensure that we maintain our strong financial position going forward. In turn, this will enable us to act swiftly upon the opportunities we believe will enhance shareholder value, while mitigating the Company, as far as possible, against the risk of future fluctuations in values."

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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 January 2009 the Company’s portfolio comprised 625 properties, with nearly 2,000 letting units.

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