the Local Shopping reit plc

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Interim Management Statement

London: 9 February 2011 – 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 2011.

Highlights

- Ongoing success with the active asset management programme:
  - 42 retail units let generating an annualised total rent of £408,290
  - 13 of these lettings incorporate stepped rent increases, with initial rents rising from £147,900 to £168,750 per annum, against a Market Rent of £152,170 per annum; the remaining 29 units were let at 5.0% above Market Rent
  - 96 rent reviews and lease renewals increased annual rental income by more than £43,000, producing a 7.2% uplift above Market Rent
  - Planning consent obtained for six flats and the subdivision of two retail units to provide rental evidence for upcoming rent reviews
  - Overall void rate maintained at 11.3% with a healthy pipeline of future lettings
- Active programme of acquisitions and disposals:
  - Purchase of four convenience stores for £1.43 million at an average net initial yield of 6.95%
  - Successful sale of five ex-growth properties for a total of £2.08 million, 2.6% above their September 2010 valuation
  - Sale of three flats for a total of £0.26 million, 51.3% above their September 2010 valuation
- £100 million Joint Venture established with Pramerica Real Estate Investors:
  - Investing in retail parades and neighbourhood centres throughout the UK
  - First acquisition of a £1.62 million retail parade due for imminent completion
- Financial position (with £44.4 million of undrawn facilities and a cash generative portfolio) remains strong, ensuring the Company is well positioned to continue to build on its existing portfolio and activities.

Asset Management

Market context

The UK economy has yet to feel the full impact of the upcoming deficit reduction programme, inflation remains persistently above target and domestic growth disappointed in Q4 2010, even taking into account the impact of the bad weather. Such a backdrop will continue to present a challenging retail environment across the UK and the outlook is therefore uncertain for the overall occupier market. However, while certain regions are likely to be more adversely impacted than others, we are confident that the wide geographic spread and diversity of our assets and tenant base, with its focus on supporting the top-up shopping needs of local communities, will continue to underpin our strong, cash generative business model.

Portfolio update

We are pleased to report that demand for our smaller units remains healthy. Furthermore, our willingness to adopt a flexible and proactive approach to leasing space is reflected in our success in letting 42 vacant units since 30 September 2010 at a rent of £408,290 per annum (substantially ahead of the 28 lettings at a rent of £244,180 per annum secured in the same period last year).

13 of these new lettings incorporate stepped rent increases, with the initial rents rising from £147,900 per annum to £168,750 per annum over the first three years of their leases, compared with a Market Rent of £152,170 per annum. The remaining 29 units were let at 5.0% above Market Rent.

The letting pipeline also remains healthy, with 28 units under offer as at 31 January 2011, at a combined rental of £363,090 per annum (well ahead of the 24 units that were under offer at a rent of £290,020 per annum as at 31 January 2010).

We also made encouraging progress in completing 96 rent reviews and lease renewals, increasing rental income by £43,902 per annum, representing an average uplift of 3.7%, and 7.2% above Market Rent. In addition we acquired the freehold interests in properties in Mere Green, Birmingham and Newbury for a combined £48,000 and extended the lease on a short leasehold property in Hastings in return for an increased ground rent which should lead to improved investment values.

We continue to work hard to extract value from the under-used upper floors of some of our properties and to reconfigure and improve the planning consents on our units. Since 30 September 2010, we have secured planning consent to build five flats in vacant office space above shops in Warwick and gained consent for a change of use from retail to residential on a vacant shop in south west London where we are shortly to commence the conversion works. In addition, we obtained consent to divide an A5 (hot food takeaway) unit within a parade in Birkenhead into two units which should allow us to improve the rental tone within the parade. We have also obtained consent to create three retail units from a larger unit in a retail parade in Bolton which again should allow us to improve the rental tone within the property ahead of a number of upcoming rent reviews.

Over the period, tenant defaults and associated bad debts remained in line with our expectations. Our success in managing tenant default and letting vacant retail and residential units has allowed us to maintain the overall void rate at its September 2010 level of 11.3%. Encouragingly this is meaningfully down on the 11.9% overall void rate reported as at 31 January 2010. Within the overall void rate, the core commercial void rate is 8.0%, the residential void rate is 0.9% and the deliberate void rate is 2.4%.

Acquisitions and Sales

Market context

The banking sector needs to carry out a substantial de-leveraging over the next few years but the inability of lenders to make substantial loan write-downs has resulted in only a limited supply of distressed sales coming to the market. Whilst we foresee an increase in supply from such sales over the next 12 months, we also expect the banks to look for longer term asset management led solutions for the distressed properties and portfolios on their books. We believe that low interest rates are supportive of current valuation levels but, with bank debt remaining scarce, near term yield compression in our sector seems unlikely. Increases in valuation will therefore be driven by the ability to grow rents and add value through active asset management.

Portfolio update

Since 30 September 2010, we have purchased four convenience stores let on long leases to Tesco and Martin McColls for a total of £1.43 million, reflecting an average yield of 6.95%. These properties provide good growth potential through five yearly fixed or RPI linked rent reviews.

In line with our ongoing strategy to sell ex-growth properties, we have disposed of five properties since 30 September 2010, for a total of £2.08 million, at an average yield of 8.54%. These sales were secured at an average of 2.6% above their September 2010 valuation. We have also exchanged contracts, subject to planning, to sell a property in Rutherglen for £0.50 million. In addition, we sold three flats for £0.26 million, 51.3% above their September 2010 valuation. Further sales are planned as we look to recycle the proceeds into new opportunities.

Working with Banks

A key element of our strategy for growth is the management of distressed assets. As previously reported, we are managing a small mixed portfolio of properties in the North-West for a large UK bank and have entered into a legal agreement with another lender to manage the smaller investment properties it acquires when it has to take back control of assets from its distressed borrowers. We are continuing our discussions with a number of other lenders who recognise the value of our business model, encompassing nationwide coverage, an extensive network of local agents and our intensive and specialist asset management skills.

Joint Ventures

A second key element of our strategy is to seek to grow the business through the creation of joint ventures. As announced on 29 November 2010, we have entered into a JV agreement with Pramerica Real Estate Investors ("Pramerica") to invest in retail parades and precincts throughout the UK. It is intended that the JV will comprise over £37 million in equity which, with gearing, will provide a total of around £100 million to invest in the UK neighbourhood / convenience retail sector. With Pramerica committing to provide 80% of the equity (£30 million) and LSR providing the remaining 20% (£7.5 million), the JV is structured so that LSR and Pramerica act as co-investors and LSR will act as Manager and be responsible for sourcing the investments. Debt finance is being provided by HSBC.

We are pleased to report that the JV is due to complete its first acquisition imminently, with the purchase of a retail parade in Stanwell, Middlesex for £1.62 million. We are currently evaluating a number of other opportunities which we are predominantly sourcing off-market using our UK-wide network of retained agents.

In addition to the Pramerica JV, the Company is currently considering a range of other opportunities to deploy its unique set of specialist asset management skills. These include the management of third party assets and further joint venture prospects, built upon our expertise in managing smaller properties throughout the UK. 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

- Use our unique business platform and management skills to grow revenue, which will be achieved by:
  - sales of ex-growth properties to invest in new opportunities;
  - portfolio or corporate acquisitions;
  - the creation of further partnership vehicles aligned to our sector; and
  - distressed asset management.

Financing

The Company's borrowing position remains unchanged from that reported as at 30 September 2010. It has two fully drawn loans with debt outstanding of £116.9 million at an average interest rate of 5.60%. The term of both loans runs until 2016 and there are no ongoing loan-to-value default provisions. LSR also has an additional, part-drawn long-term loan facility from HSBC of £60 million. This undrawn loan comprises a £35 million revolving credit facility, of which £5.1 million has been drawn, and a separate £25 million term facility of which £10.5 million has been drawn. This loan has an 85% loan-to-value covenant and 2016 expiry.

Nick Gregory, LSR's Joint Chief Executive Officer, said: "Our highly focused business model and active approach to asset management continues to underpin our resilient performance and enhance the income generated by our portfolio. We are also extremely pleased to have completed a number of disposals during the period for prices above the last reported values in September and to have acquired four assets let on good covenants that offer good potential to add value.

Mike Riley, LSR's Joint Chief Executive Officer, added: "Our specialist skills, track record and experience are of increasing interest to banks and institutions who are either seeking to maximise the value of their small retail assets or to gain exposure to the highly cash generative and resilient local shopping market. We look forward to building on our existing relationships with Pramerica and banks to create a growing asset and fund management platform, whilst also examining opportunities to use our REIT status to make acquisitions that will expand our wholly-owned portfolio."

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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 2011 the Company's portfolio comprised 654 properties, with over 2,000 letting units. In addition to its wholly owned portfolio the company intends to deploy its unique set of specialist asset management skills in the management of third party assets and joint ventures, building upon its current mandate to manage smaller properties for two UK lenders.

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