



the Local Shopping reit plc

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

(London: 7 August 2009) – 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 2009.

### **Highlights**

- Overall void rate unchanged at 11.8% despite challenging trading conditions
- Letting market remains active – 37 vacant retail units successfully let at a rent of £340,250 per annum
- Annual rental income increased by more than £17,000 through active asset management, producing uplifts above Market Rent
- Successful sale of 13 ex-growth properties for a total of £2.41 million, at 4.0% above their March 2009 valuation
- Purchase of 12 properties for £3.59 million at an average net initial yield of 7.94%
- Planning consent obtained for 32 flats, enhancing asset values
- No loan-to-value default provisions on existing debt and £60.0 million of unused facilities
- Business well positioned to exploit buying opportunities arising from current market conditions.

### **Market Outlook**

Retailers continue to operate in an extremely difficult trading environment, despite some recent signs that the economic contraction may be slowing, and with unemployment continuing to rise there appears to be little respite on the horizon. However, our diverse tenant base of smaller, independent traders continues to perform relatively well, particularly where their trade relies on non-discretionary spend and everyday items. This is reflected in the ongoing demand for the units we have available to let, together with our continuing success in letting vacant units. In addition, in the current market it is proving more difficult to grow rents at rent review and lease renewal. In spite of this, our rents remain affordable and we do not have to provide the long rent-free periods and capital contributions to tenants that are now

commonplace in shopping centres and on the traditional high street. This makes it much easier for us to sustain rental values when we are letting vacant units.

As we reported in our interim results, low short-term interest rates have left cash-rich private investors searching for ways to achieve an acceptable return on their money. As a result, in February they began to return to the property investment market. In the following months the auction rooms have remained busy with corresponding good success rates and firm prices paid, particularly for the smaller (sub-£500,000) properties. There are signs that yields now appear to be stabilising and, for stronger covenants with better known retailers, there is good evidence that yields have hardened since we last reported. While this is encouraging, we are mindful that equity investors only have a finite amount of money, so remain cautious in our approach. We also anticipate that, for some properties, there will be further downward pressure on valuations over the coming months, though driven more by falling rental values rather than by rising yields.

We are now actively searching for interesting accretive investment opportunities. However, the vast majority of lenders have still to fully evaluate the extent of bad loans within their loan books and work out a coherent strategy for dealing with problems. As a result, we have not seen large numbers of distressed sales of smaller properties and/or portfolios. Our focus therefore remains on ensuring that the Company maintains its strong financial position, which will enable us to take best advantage of these opportunities at the appropriate time and price.

## **Asset Management**

Since 31 March 2009, the Company has continued to actively manage its portfolio and has let 37 vacant units at a total rent of £340,250 per annum. While this was 2.7% below Market Rent, nine of these new lettings incorporate stepped rent increases, which we have ignored in our comparison. These nine lettings were at an initial rent of £86,000 per annum rising to £104,500 per annum over the first three years of their leases, compared with a Market Rent of £104,350 per annum. The remaining 28 units were let at a 3.6% premium to Market Rent. In addition, we completed rent reviews and lease renewals on 57 units, increasing rental income by £17,844 per annum at an average uplift of 2.6% and 3.1% above Market Rent.

We continue to work hard to extract value from the under-used upper parts of some properties and adjacent unused land. Since 31 March 2009 we have secured planning consent for 32 flats and the subdivision of a retail unit to form two smaller units. This includes a successful planning appeal for six flats in Braintree, where we are now on site building a further five flats under a previous consent with completion due in September. When let, these flats will generate additional rental income of £33,000

per annum. We have also obtained five 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; although, drawing on previous experience, we do expect bad debt write-offs to increase over the second half of the year. However, our success in letting vacant units has left the overall void rate unchanged at 11.8%. Within this, residential voids fell to 0.8% (March 2009: 1.1%); deliberate voids remained level at 2.6% (March 2009: 2.6%); and, reflecting the difficult retail environment, the commercial void rate rose to 8.5% (March 2009: 8.1%). The lettings market for our smaller units remains active and we have 30 units under offer, which we expect to produce annual rental income of £302,480, together with a 1.7% reduction in our void rate.

## **Acquisitions and Sales**

With signs that yields are beginning to stabilise, we have taken the opportunity to recycle some of the proceeds from recent sales into new acquisitions. In June we completed the purchase of 10 shops in a £3.5 million sale and leaseback deal with Coral Bookmakers. The properties provide us with some useful asset management opportunities and are readily saleable. They were acquired on new 15-year leases with guaranteed rental uplifts at the first rent review at a net initial yield of 7.75%.

Encouragingly, Coral sold a similar package of six properties, let on identical lease terms, at Allsop's auction on 7 July 2009 for an average net initial yield of 5.81%. On the same date, we completed the purchase of two small properties located in the Scottish Borders for £83,500 and in July we acquired the freehold of a parade in Kidderminster for £350,000 where we owned a leasehold interest with 81 years left on the lease.

We are also continuing with our stated strategy of selling ex-growth and lower yielding properties. Since 31 March 2009 we have sold 13 properties, including part sales, for £2.41 million, at an average initial yield of 8.28%. This was 4.0% above their March 2009 valuation of £2.32 million.

As a result of these sales, the Company now has a portfolio of 628 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 5.69%. The term of both loans is until 2016 and there are no ongoing loan-to-value default provisions. LSR also has an additional undrawn long term committed loan facility available from HSBC

of £60 million. This undrawn loan comprises a £35 million revolving credit facility and a separate £25 million term facility, which must be fully drawn by 4 September 2009. We are currently in discussions with HSBC to extend the draw down period of the term facility.

### **Share Buybacks**

The Company has not purchased any shares since 31 March 2009 and has 91,669,870 shares in issue of which 9,164,017 are held in Treasury and 1,123,339 in the Company's Employee Benefit Trust.

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

"Despite the weak economic environment, our asset management team has been very effective in maintaining occupancy levels across the portfolio. The successful letting of 37 retail units since the end of March demonstrates the robustness of our model and the relative strength of our underlying tenant base."

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

"Current market conditions remain very challenging. While we are beginning to see some value emerging, our main focus is to ensure the Company has a strong financial platform from which to exploit the acquisition opportunities that these market conditions will undoubtedly provide in the coming months."

### ***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 2009 the Company's portfolio comprised 628 properties, with nearly 2,000 letting units.

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