



the Local Shopping reit plc

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

(London: 10 February 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 January 2009.

### **Highlights**

- Letting market remains active – 23 vacant retail units successfully let at an average of 5.2% above Market Rent, at a rent of £271,000 per annum
- Overall void rate rose from 10.6% to 11.8% in line with management expectations with continuing demand for smaller units
- Annual rental income increased by more than £32,000 through active asset management, producing uplifts above Market Rent
- Successful sale of 13 ex-growth properties for a total of £3.42 million, 4.1% below their September 2009 valuation
- Additional rental income of £156,000 per annum expected to be produced through the refurbishment of 24 flats, with redevelopment of a further six currently underway
- No ongoing 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**

The wider retail sector is undoubtedly under considerable pressure at present. However, under difficult conditions, our occupier base, which mainly comprises smaller, independent traders is performing relatively well, particularly where their trade relies less on discretionary spend than the traditional high street. This is reflected in the ongoing demand for the units we have available to let, together with our continuing success in letting vacant units. As values continue to fall in our sub-sector, we have seen a few bargain hunters return to the market but, overall, transaction volumes remain low. The imperfect nature of our market has allowed us to make a number of sales at good prices, particularly to owner occupiers, but such opportunities are becoming less frequent, with bank finance still in extremely short supply.

The vast majority of lenders have still to fully evaluate the extent of bad loans within their loan books. However, we believe that increasing levels of tenant default, as the economic environment deteriorates, will force banks to manage their loans more proactively towards the second half of the year. Until this happens, however, we do not anticipate that there will be a substantial number of acquisition opportunities, either because the prices are not sufficiently discounted, or they lack potential for value enhancement or preservation through deployment of our asset management skills. Therefore, in the meantime, we remain focused 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 30 September 2008, the Company has continued to actively manage its portfolio and has successfully implemented the following initiatives:

- 23 vacant units let at a total rent of £271,000 per annum (5.2% above Market Rent)
- Rent reviews carried out on 38 units, increasing rental income by £19,113 per annum (an average uplift of 3.9% and 7.5% above Market Rent)
- Leases renewed on 12 units, adding a total of £13,590 per annum (an average uplift of 14.1% and 5.6% above Market Rent).

We continue to refurbish our vacant residential units and currently have 24 flats undergoing works, which we expect to generate additional rental income of £129,000 per annum when fully let. Additionally, in Epsom and Tewkesbury, we are creating six flats out of existing retail space with a potential rental value of more than £27,000 per annum. As part of our drive to extract value from the under-used upper parts of some properties and adjacent unused land, we have submitted planning applications for 25 residential units and undertaken pre-application consultations with local authorities on a number of other projects. During the period, we have also been granted a change of use consent for a retail unit in Bathgate from A1 (shops) to A3 (café/restaurants).

While trading conditions over the Christmas period were undoubtedly challenging, tenant defaults have remained in line with our expectations. During the period, our overall void rate rose from 10.6% to 11.8%. Within this, residential voids fell to 1.0% (September 2008: 1.4%); while deliberate voids rose to 2.6% (September 2008: 2.3%) as we continued to take back space for refurbishment and conversion into residential letting units; and, reflecting the difficult retail environment, our commercial

void rate, which includes two units where tenants are in administration but likely to cease trading, rose to 8.2% (September 2008: 6.9%).

However, the lettings market for our smaller units remains active and we have 25 units under offer, which we expect to produce annual rental income of £318,100, together with a 1.8% reduction in our void rate.

### **Acquisitions and Sales**

In recent months we have not identified sufficiently attractive acquisition opportunities in a market with limited stock. As a result, we have not purchased any properties since 30 September 2008 and have no properties under offer to purchase. In line with our stated strategy of selling ex-growth and lower yielding properties, we sold 13 properties during the period, including one part sale, for £3.42 million, at an average initial yield of 8.38% (September 2009 valuation: £3.57 million).

As a result of these sales, the Company now has a portfolio of 632 properties comprising more than 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 5.68%. The term of both loans is until 2016 and there are no ongoing loan-to value default provisions. It has an additional undrawn long term committed facility available from HSBC of £60 million.

### **Share Cancellations and Buybacks**

Since 30 September 2008, the Company has cancelled 675,000 Ordinary 20p shares held in Treasury. The Company also purchased 630,000 Ordinary 20p shares at an average price of 33p. Of these shares, 605,000 are held in Treasury and 25,000 were transferred to the Employee Benefit Trust in order to satisfy share awards to employees, which may crystallise in the future. After these transactions the Company has 91,669,870 shares in issue of which 9,164,017 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 maintaining occupancy levels across the portfolio. The successful letting of 23 retail units since 30 September 2008 demonstrates the robustness of our model and the relative strength of our underlying tenant base.”

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

“Given the deteriorating economic environment, 2009 will be a challenging year for property investors. However, the Company has the skills to manage our occupier base and a strong financial platform from which to exploit the acquisition opportunities that these difficult 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 January 2009 the Company’s portfolio comprised 632 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).