25 March 2011

Alpha Tiger Property Trust Limited (‘Alpha Tiger’ or the ‘Company’) Trading Update

Following GDP expansion of 4.8% in 2010, the global economic outlook is one of steady, slower but still strong growth, with 4.0% forecast for 2011[1].

A two speed global recovery continues. Many developing markets have been experiencing a vigorous recovery and have provided, and are likely to continue to provide, the principal support to global demand in 2011. Developed economies are experiencing a positive but subdued growth pattern. In many cases, forecasts for 2012 are better than 2011 as potential improvements in sentiment and labour markets drive a pick-up in domestic demand in many developed markets, augmenting current export led growth[2].

While the general trend appears to be continued global stabilisation and growth, mixed economic indicators continue to cloud forecasts and divide opinion as to the level of the recovery. Many developed economies, with the notable exception of the US which introduced further quantitative easing in the fourth quarter of 2010, have withdrawn stimulus packages and entered a phase of fiscal policy tightening as governments seek to reduce deficits. Opinion is divided as to whether such fiscal consolidation will mute the recovery or be accretive by easing consumer and business concerns about future tax burdens[3].

Inflation in many developed economies remains relatively muted, and as governments tighten fiscal policy, central banks are likely to assume a greater role in supporting demand. Whilst there is some increased debate surrounding the need to raise interest rates, at present policy appears to prioritise the promotion of growth over potential inflation risks, thus suggesting imminent significant rises in interest rates are unlikely[4]. However, in many developing economies, where inflation rates are more elevated, a general rise in interest rates is already underway.

Looking forward, 2011 may potentially witness a more active real estate market, but also a market that is still polarised and generally risk averse as the economic background continues to shape demand for income producing and lower risk investments. Increasing evidence that banks are taking steps to restructure their loan books and undertaking more consensual sales as swap breakage costs begin to unwind[5] may well be the catalyst for increased investment supply and activity[6].

Alpha Tiger continues to pursue investment opportunities and the Company remains in a strong position to take advantage of opportunistic purchases, building on its strategic investments in Spain and the UK during 2010. The Company continues to apply its active asset management philosophy to its existing investment portfolio and has had notable success over the past quarter, including the anchoring of its H2O shopping centre investment in Madrid, Spain with a key letting to leading supermarket group Mercadona.

UK

Whilst it is still too early to say with absolute certainty, an unexpected 0.6% contraction of GDP in the fourth quarter of 2010 is looking anomalous rather than the precursor to a return to a recessionary environment. Overall, the UK economy grew by 1.4% in 2010 with a slight moderation to 1.3% forecast for 2011, partly reflecting the impact of announced austerity measures[7].

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[1] Economic Intelligence Unit Global Forecast Jan 2011
[2] Cushman & Wakefield - Economic Pulse, Outlook 2011
[3] Economic Intelligence Unit – Global Forecasting Service January 2011
[4] Economic Intelligence Unit – Global Forecasting Service January 2011
[5] DTZ Investment Market Update Q4 2010.
[6] Cushman & Wakefield - Economic Pulse, Outlook 2011
[7] Economic Intelligence Unit – UK Overview January 2011

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The policy stance of the Bank of England ("BoE") is complicated by persistent above-target inflation at a time of subdued economic growth[8]. The latest monetary policy committee meeting of the BoE indicated that there was no increase in the number of members in favour of a rise in the policy interest rate from its current historic low of 0.5% and the number of members who favour this view is still a minority. Consumer price index inflation remains stubbornly high (it reached 4% in January) however, given mixed economic indicators, many observers are not predicting interest rate rises in 2011, despite financial market expectations [9].

Real estate investment transaction volumes during 2010 increased 50% above 2009 levels[10] and continued low interest rates could assist further increased activity and a recovery in the broader UK real estate market.

Spain

Overall, the eurozone economy shrugged off the on-going fiscal concerns of some of its members and continued to expand by 1.7% in 2010. However, a notable gap between growth in the core and other economies[11], continuing concerns about funding in some peripheral economies and the impact of ongoing austerity measures give rise to sustained uncertainty, albeit this has been somewhat subdued since an International Monetary Fund intervention in Ireland and continued European Central Bank support.

The Spanish economic recovery in 2011 is likely to be modest whilst the economy is restructuring. Unlike some other eurozone economies, Spain appears to have made good inroads into its budget deficit and is on target for 2010[12]. Notwithstanding the fact that Spain has a more dynamic economy than others it is often compared with, persistent challenges remain. However, there have recently been signs that the Spanish government may be starting to persuade the market that its public finances are under control. Since peaking in late November, the spread between 10 year Spanish and German government bond yields has fallen sharply, and to a larger degree, than many peripheral eurozone economies[13]. Whereas Spain's large banks appear well capitalised, the savings bank sector (cajas de ahorros), which accounts for around one-half of the system's assets, faces liquidity issues, albeit a government drive to consolidate the sector is underway[14].

Occupier sentiment within Spain´s retail sector has improved marginally in recent months, although there is still a notable degree of caution surrounding expansion plans. Real estate investment activity has increased, albeit from a low base, with a range of investors predominantly continuing to target prime assets offering good security of income. This trend is expected to continue during 2011[15].

India

India´s economy continues to demonstrate robust growth, with real GDP growth of 9.1% forecast in the fiscal year ending March 2011 and 9.0% in 2012[16]. India's strong growth fundamentals - high saving and investment rates, its expanding workforce and middle class - are likely to sustain its economic performance.

Stubbornly high inflation, however, remains a lingering concern. The Reserve Bank of India (RBI, the central bank) raised its main policy rate, the repurchase (repo) rate, by 25 basis points to 6.5% at in January, the sixth increase since the current cycle of monetary tightening began. The repo rate has now been raised by a total of 175 basis points since February 2010[17].

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[8] Economic Intelligence Unit – UK Overview January 2011

[9] Colliers International Property Snapshot February 2011
[10] Colliers International Property Snapshot February 2011
[11] Capital Economics – European Economic Outlook January 2010
[12] Capital Economics – European Economic Outlook February 2010
[13] Capital Economics – European Economic Outlook February 2010
[14] Economic Intelligence Unit – Global Forecasting Service January 2011
[15] Cushman & Wakefield – Marketbeat Spain Retail Snapshot Q4 2010
[16] Economic Intelligence Unit – Country Report February 2011
[17] Economic Intelligence Unit – Indian Economy Quick View January 2001

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The outlook for India's office market remains generally positive, with demand expected to improve along with the buoyant economy. The Information Technology and IT Enabled Services ("ITeS") sectors are forecast to act as a growth catalyst[18] which should assist the prospects for a sale of the Company's Galaxia investment.

The government of India´s recent budget proposes that developers of SEZs be brought within the ambit of Minimum Alternate Tax and Dividend Distribution Tax during 2011, largely unwinding the tax-free status for such companies. This is likely to increase competition between other developments and SEZs but is not deemed to materially impact the value of the Company´s Galaxia development

Net asset value

The unaudited adjusted net asset value per share of the Company was 103.6 pence at 31 December 2010 (30 September 2010: 103.6 pence). There was no revaluation of investment property during the period.

Financing

The Spanish SPV, a joint venture that acquired the H2O property, has drawn down senior bank finance of €75 million (£64.5 million) from a syndicate of banks for a term of seven years with no LTV covenants. Loan interest is charged at a weighted average margin of 3% over 3 month Euribor. The SPV has taken out an interest rate cap at 2.85% (pre-margin) to hedge the interest costs on €50 million (£43 million) of debt for the loan term at a cost of €2.2 million (£1.9 million).

The Company is exposed to foreign currency fluctuation on £:€ exchange rates on the euro denominated loans it has advanced in relation to the acquisition of the shopping centre. In October 2010, the Company entered into a forward sale contract for €12.7 million (£10.9 million) relating to the loan advanced to fund the VAT incurred when the shopping centre was purchased. Additionally, in relation to the €14 million (£12 million) mezzanine loan advanced, two forward sale options have been purchased covering €7 million (£6 million) of the exposure. The Company continues to monitor remaining exchange rate exposures.

Spain
H2O, Rivas Vaciamadrid, Madrid

As previously reported, the H2O shopping centre was acquired for €83.3 million (£71.3 million) including acquisition costs and funding has been provided for a further €5 million (£4.3 million) of capital improvements. The acquisition was financed with a €75 million (£64.2 million) seven year syndicated bank facility. Alpha Tiger provided €14.5 million (£12.5 million) of mezzanine and equity finance to the transaction. The mezzanine loan of €14 million (£12.0 million) ranks ahead of equity and accrues a coupon of 8% together with profit participation of 10% of EBITDA (after bank interest) of the Spanish property holding SPV. Alpha Real Capital LLP ("ARC") has co-invested €1.5 million (£1.3 million) in equity.

The H2O centre has a gross lettable area of 49,516 square metres, comprising 119 units, including shops, a multiplex cinema and restaurants. It has a large fashion retailer base, including some of the strongest European fashion brands, including Zara, Mango, Cortefiel, H&M, C&A and Massimo Dutti.

The asset is jointly controlled by the Company and ARC, and the Company is proportionally consolidating its interest in the joint venture. As part of the H2O acquisition, the Company entered into an option agreement dated 31 March 2010 giving the Company the right to acquire ARC's investment for a pre-determined price (or fair value, if higher) between 1 May 2010 and 31 December 2010. In December, it was announced that a new option was entered into extending this right to 21 July 2011 with the same principal terms as the original option. In addition, the Company has provided a short term acquisition VAT loan for €12.7 million (£10.9 million). The loan earns an arrangement fee of 2% and accrues a margin of 2% over 3 month Euribor; it is expected to be repaid before the end of the calendar year when the Spanish tax authorities refund the VAT incurred.

As announced during December 2010, the Company has signed a lease with Mercadona, one of Spain's leading supermarket operators. Mercadona is in the process of obtaining the standard local authority licences and consents and opening is expected during 2011. The 3,111 square metre supermarket unit, which was vacant at the time of Alpha

[18] Cushman & Wakefield - Economic Pulse, Outlook 2011

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Tiger's investment in H2O, has been let on a 30 year lease with a minimum 10 year term. In a more recent letting, Kiko, an international branded cosmetics operator, has leased an outlet at H2O. Licence applications have also been submitted for new terrace and water play areas which are intended to enhance the customer experience and dwell time at the centre, in addition to creating new rental income from newly created retail kiosks.

United Kingdom
Alpha UK Multi Property Trust Plc ("AUMP")

As previously announced the Company invested, by way of convertible unsecured loan stock ("CULS"), £4.75 million in AUMP (formerly Close High Income Properties PLC), a London Stock Exchange listed UK property fund with gross property
assets of £112.26 million (as at 30 September 2010). AUMP has a regionally diversified portfolio of UK light industrial and office property.

The Company's CULS earn a coupon of 4.75% per annum. The CULS have preference shares attached to them which give the Company voting rights on resolutions not pertaining to UK Listing Authority matters. The CULS are convertible into ordinary share capital at any time until June 2013 at a conversion price of 31p. Should Alpha Tiger not elect to convert, the CULS are redeemable at a premium of 18% to their face value.

Alpha Tiger also has an option to purchase up to a further 4 million shares in AUMP at a price of 50p per share (the "AUMP
Option"). Should Alpha Tiger elect to exercise the CULS in full (and assuming that the CULS coupon will be met by the issue of further CULS in accordance with its terms) Alpha Tiger will hold 17.4% of AUMP's enlarged share capital (assuming no other issues of shares). If the AUMP Option is also exercised in full, Alpha Tiger will hold 20.5% of AUMP's enlarged share capital (again assuming no other issues of shares).

Freehold Income Trust ("FIT")

As previously announced during November and December 2010, the Company has made two investments, totaling £6.2 million, in FIT, an open-ended unauthorised unit trust scheme that provides secure and stable investment returns from acquiring residential freehold ground rents which offer an attractive income stream, capital growth prospects and high risk-adjusted returns.FIT owns over 62,500 freeholds in the UK with a gross annual rent income of £7.3 million. The forecast yield on the investment is expected to be 4.4% p.a. post-tax. FIT's NAV at 31 December 2010 was £159 million.
The investment is expected to be short term and will provide a better return than currently accrued on the Company's cash balances. FIT operates a monthly dealing facility Investment to provide liquidity.

FIT is managed by Alpha Real Property Investment Advisers LLP ("ARPIA"), a subsidiary of ARC, and the day to day management of FIT's property investments continues to be performed by Freehold Managers PLC ("FMP"). The fee rebate to the Company will continue to apply.

India
Galaxia, National Capital Region, NOIDA

As previously announced Alpha Tiger and its development partner Logix Group entered into a settlement agreement to jointly explore a sale of their interests in the Galaxia project, an 11.2 acre special economic zone located in NOIDA, India. It was further announced that, following breaches by Logix Group, the Company has recommenced arbitration proceedings in order to protect its Galaxia investment.

Notwithstanding the above, the Company is continuing to actively explore avenues for a sale of the development. Further updates will be provided in due course.

Foreign currency
All foreign currency balances have been translated at the period end rate €1.168: £1; £1: INR 70.47.

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Share buyback authority

At the EGM on 17 March 2011 the Company's shareholders approved a general authority allowing the Company to buy back up to 24.99% of its shares. A waiver granted by the Takeover Panel was also approved.

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