13 February 2015

ALPHA REAL TRUST LIMITED ("ART" OR THE "COMPANY")

TRADING UPDATE AND DIVIDEND ANNOUNCEMENT

ART today publishes its trading update for the period ended 31 December 2014 and the period up until the date of this announcement. The information contained herein has not been audited.

About the Company

ART (ticker ARTL:LSE) targets investment opportunities across the asset-backed spectrum, including real estate operating companies, securities, services and other related businesses that offer high risk-adjusted total returns.

The Company currently focuses on high-yielding property debt and equity investments in Western Europe that benefit from underlying strong cash flows. The current portfolio mix, excluding sundry assets / liabilities, is as follows:

High yielding debt:	32.1%
High yielding equity in property investments:	24.8%
Ground rent investments:	19.7%
Other investments:	9.1%
Cash:	14.3%

The Company's Investment Manager is Alpha Real Capital LLP ("ARC"), whose team of investment and asset management professionals focus on the potential to enhance earnings in addition to adding value to the underlying real estate assets and also on the risk profile of each investment within the capital structure to best deliver high risk adjusted returns.

Highlights

The company has had a highly active period securing notable capital recycling and asset management successes:

- NAV per ordinary share 109.1p (108.3p: 30 September 2014)
- Adjusted earnings per share of 5.3p for the nine months to 31 December 2014 (3.5p for nine months to 31 December 2013)
- Dividend of 0.525p, for the quarter ended 31 December 2014, expected to be paid on 20 March 2015
- Sale of non-core investment: sale of the final assets in BCP released £2.7 million for reinvestment in opportunities across the asset-backed spectrum that offer high risk-adjusted total returns
- Galaxia arbitration awarded in the Company´s favour: award for the original amount invested, penalty interest and costs
- AURE loan refinance: as part of a larger refinancing of AURE's loan facilities, in which the Company was repaid £2.3 million, ART provided a new mezzanine loan facility of £10.3 million for a two year term expiring November 2016. The loan earns a coupon of 9% plus entry, exit and extension fees. The loan was amortised during the quarter to £9.6 million
- Europip loan refinance: ART extended its loan to Europip for 2 years, the new loan earns a coupon of 9% per annum plus entry, exit and early prepayment fees; the loan was amortised during the quarter to £3.4 million
- Europip capital recycling: £1.4 million of capital returned to ART for reinvestment as a result of strategic asset sales and renegotiated bank finance terms
- H2O: as a result of asset management initiatives, including an improved tenant mix and physical upgrades undertaken by ART, the Madrid shopping centre attracted record visitor numbers

- Continued earnings growth: income from core and non-core investments, both equity and high yield debt, continue to add to the Company´s earnings position
- 93% of the Company's investment portfolio is in income producing investments in the UK and Europe

Investment summary

Investment name Investment type	Investment value	Income return p.a.	Investment location	Property type / underlying security	Investment notes	% of portfolio [1]
High yielding debt (32.1%)						
Active UK Real Estate Fund plc ("AURE")						
Mezzanine loan	£9.7m [2]	9.0% [3]	UK	High-yield diversified portfolio	Preferred capital structure	12.5%
Industrial Multi Property Trust plc ("IMPT")						
Subordinated debt	£11.8m [2]	15.0% [3]	UK	High-yield diversified portfolio	Unsecured subordinated debt	15.2%
Europip plc						
Mezzanine loan	£3.4m [2]	9.0% [3]	Norway	Logistics, office and retail	Secured mezzanine loan	4.4%
High yielding equity in property investments (24.8%)						
H2O shopping centre						
Direct property	£13.7m (€17.5m)	10.6% [4]	Spain	High-yield, dominant Madrid shopping centre	Debt facility with no LTV covenant and a 1.1x ICR covenant	17.7%
Europip plc						
Indirect property	£3.4m (€4.4m)	7.5% [4]	Norway	A geared property investment vehicle invested in logistics, office and retail properties	Recently extended senior and mezzanine loan position	4.4%
Cambourne Business Park						
Indirect property	£1.3m	12.8% [4]	UK	High-yield business park located in Cambridge	Bank facility at 50% LTV (current interest cover of 2.4 times covenant level)	1.7%
Industrial Multi Property Trust plc						
Equity	£0.8m	n/a	UK	High-yield diversified portfolio	19% of ordinary shares in fund with medium term debt	1.0%
Ground rent investments (19.7%)						
Freehold Income Authorised Fund						
Ground rent fund	£15.3m	3.8% [5]	UK	Highly defensive income; freehold ground rents	No gearing; monthly liquidity	19.7%
Other investments (9.1%)						
Galaxia						
Direct property	£4.6m (INR 450m)	n/a	India	Special Economic Zone development site located in NOIDA, Delhi, NCR	Legal process underway to recover investment by enforcing arbitration award	5.9%
Healthcare & Leisure Property Limited						
Indirect property	£2.1m	8.6% [6]	UK	Leisure property fund	No external gearing	2.7%
Other	£0.4m	n/a	Varied	Varied	Varied	0.5%
Cash (14.3%)						
Cash (Company only)	£11.1m	0.1-1%	UK	Current or 'on call' accounts		14.3%

[1] Percentage share shown based on NAV excluding parent company's sundry assets/liabilities
[2] Including accrued interest at the balance sheet date
[3] Annual coupon
[4] Over 12 months to 31 December 2014
[5] Annualised nine month income return; post tax
[6] Return over the average investment during the ownership period

High yielding debt

Market overview

In terms of the real estate market, investor outlook for many countries across Europe remains cautiously optimistic.

Commercial real estate lending continues to stabilise and improve, again with varying degrees of growth in volumes between the UK and many eurozone countries. A greater supply of debt finance and a more positive view of risk exists than was the case twelve months ago. There continues to be an increasingly diversified supply of active lenders, with the previous dominance of traditional banks being supplemented and, in part, replaced by the entry of non-bank financial institutions, such as insurance companies, debt funds and private equity. This is providing increasing competition for the Company in the high yield debt market and downward pressure on coupons.

Whilst there is increased competition within the lending market, it is expected to remain less competitive for some time for smaller transactions in non-prime sectors where a strong knowledge of the underlying assets is required. ART remains well positioned to take advantage of further debt investment opportunities as they are identified. The acquisition and refinancing needs of many real estate investment vehicles throughout Europe remain high and opportunities for lenders with real estate debt expertise continue to remain attractive.

The increased liquidity in debt markets and number of new lenders entering the market helps underwrite exit assumptions for ART's current debt investments whilst also contributing to benefit the value of the Company´s equity investment portfolio.

Key investment updates

Further to the half year results published on 21 November 2014, the following are key investment updates:

European Property Investment Portfolio plc (“Europip”)

During November 2014, ART extended the term of its loan facility to Europip for a period of two years, expiring in November 2016. The new loan is on substantially the same terms as the previous facility. The loan earns a coupon of 9% per annum plus an upfront and exit fee and an early prepayment fee if the loan is repaid within the first year.

The sale of a non core asset and a release of capital previously held as security within the banking facility resulted in £1.4 million of proceeds being repaid to ART, with the proceeds being used to amortise the ART loan to £3.4 million as at 31 December 2014.

Active UK Real Estate Fund Plc (“AURE”)

During November 2014, AURE refinanced its borrowings adding a second tranche to its bank debt and reducing the overall cost of the debt.

As part of a larger refinancing of AURE’s loan facilities, in which £2.3 million was repaid to ART, ART provided a new mezzanine loan facility of £10.3 million for a two year term expiring November 2016. The loan earns a coupon of 9% per annum plus an upfront and exit fee and an extension fee if the loan is not repaid within the first year. The loan was amortised during the quarter to £9.6 million.

High yielding equity in property investments

Market overview

The UK real estate market recovery is ahead of many eurozone countries and has been enjoying a virtuous cycle; with low interest rates supporting improving yields and in turn higher value and with a stable economy implying greater potential for rental growth. Across the eurozone the economic position is more mixed, but property investment volumes and pricing have recovered strongly across many countries and sectors as investors increasingly take the view that the substantial value lost since 2007 can be recaptured.

Increasingly there are signs that a narrow investor focus on prime assets is giving way to an objective analysis of the strengths and weakness of broader commercial property and asset backed investments. A stabilisation of asset values in broader markets has led to investors seeking higher yielding assets with the expectation that total returns in these markets are likely to outstrip returns from low yielding prime assets, particularly on a risk-adjusted basis. This bodes well for ART´s portfolio.

Demand from occupiers across the Company´s investment markets is showing signs of improvement. This is evident in ART´s UK investments such as IMPT and AURE and at the H2O shopping centre in Spain. In the UK, whilst occupier demand and leasing activity has increased, rental growth remains subdued outside prime sectors. However, value increases witnessed over a broader range of assets, suggest that investors are of the opinion that rental growth prospects are improving.

Investor sentiment towards the Spanish real estate market has continued to improve with prime assets now attracting significant interest and witnessing marked price rebounds. However, the market continues to remain polarised. Activity in the distressed asset segment of the market has also increased as investors seek to purchase at deep discounts, often wholly through equity. This increase in investor liquidity is now expected to spread to core assets in the centre ground, which is expected to benefit the Company´s H2O investment.

Key investment updates

The Company's investments have benefited from an active management approach with successes evident in both the Company's direct and indirectly held investments.

Further to the half year results published on 21 November 2014, the following are key investment updates:

H2O shopping centre, Madrid

In 2014 the H2O shopping centre investment in Madrid attracted the highest number of annual visitors since opening. This reflects the asset management improvements implemented under the Company´s ownership, including an improved commercial mix and upgraded public areas, aided by a general underlying improvement in the Spanish economic environment.

Whilst continuing lease-up of vacant space is required along with replacement of better performing brands, it is pleasing to note that 2014 was also the year in which the highest number of new leases were signed under the Company´s ownership with a total of 17 new leases (including store extensions and relocations).

Cambourne Business Park, Phase 1000, Cambridge

The re-gear of the Regus tenancy lease, which represents approximately 30% of passing rent for this asset, has been completed, extending the lease term and hence improving the security of income from the asset.

Ground rent investments

Freehold Income Authorised Fund ("FIAF")

The Company has invested £15.3 million in FIAF as at 31 December 2014. FIAF continues its unbroken 21 year track record of positive inflation beating returns, generating a total return for the year ended 31 September 2014 of 7.7%. FIAF had cash of £38.7 million and no debt drawn as at 31 December 2014.

The investment is expected to continue to provide a better return than currently earned on the Company's cash balances. FIAF operates a monthly dealing facility to provide liquidity.

Other investments

Business Centre Properties Limited (“BCP”)

BCP was acquired in late 2012 as part of the Property Investment Portfolio Plc portfolio. It was one of the assets within the portfolio deemed non-core and a managed sell-down of the assets within BCP was undertaken with a view to recycling capital to investment opportunities with high risk-adjusted total returns.

The sale of the last BCP property completed 8 December 2014. The completion of the sale of the property located in Stratford, London resulted in net proceeds £2.6 million for ART, reflecting its 95% shareholding in BCP.

As all assets within the BCP subsidiaries have been realised, liquidators have been appointed for all BCP group companies.

Galaxia, India

On 2 February 2011, ART recommenced arbitration proceedings against its development partner Logix Group (“Logix”) in order to protect its Galaxia investment, an 11.2 acre joint venture in a Special Economic Zone, located in NOIDA, the National Capital Region, India.

During January 2014, the Arbitral Tribunal, by a majority, decreed that Logix and its principals had breached the terms of the shareholders agreement and has awarded the Company:

- Return of its entire capital invested of INR 450 Million (equivalent to £4.9m using an exchange rate of 92.25 as at 27 January 2015) along with interest at 18% per annum from 31 January 2011 to 20 January 2015.
- All costs incurred towards the arbitration

Additionally, a further 15% per annum interest on all sums was awarded to the Company from 20 January 2015 until the actual date of payment by Logix of the award.

The Arbitral Tribunal has also ruled that the Company has no obligation or liability to fund the outstanding NOIDA lease rent under the Shareholders Agreement.

Under Indian law Logix have 90 days to pay the Award or appeal.

Following the determination of the arbitration noted above, the award to the Company represents a potential realisation of approximately £9.2 million. The Directors continue to hold the indirect investment at INR 450 million (£4.9 million) in the accounts due to uncertainty over timing and final value. The Company will actively seek recovery of the sums awarded.

Share buybacks

On 13 August 2014, the Company published a circular giving notice of its Annual General Meeting on 5 September 2014. The proposed resolutions, including those in relation to the Takeover Panel Waiver and the Share Purchase Authority were approved by shareholders. This allows the Company to acquire up to 24.99% of the Voting Share Capital during the period expiring on the earlier of (i) the conclusion of the Annual General Meeting of the Company in 2016 and (ii) 4 March 2016.

Dividend

The Board announces that the next dividend of 0.525p per share, for the quarter ended 31 December 2014, is expected to be paid on 20 March 2015 (ex dividend date 26 February 2015 and record date 27 February 2015).

Net asset value

The unaudited net asset value per ordinary share of the Company was 109.1p at 31 December 2014 (108.3p: 30 September 2014).

There was no revaluation of the Company's directly owned investment properties during the period.

Foreign currency

The Company monitors foreign exchange exposures and considers hedging where appropriate. Foreign currency balances have been translated at the period end rates of £1:€1.278, £1:NOK11.550 or £1:INR 96.978, as appropriate.

Strategy and outlook

The Company is actively seeking to increase the yield of its portfolio by additional investment, funded from its cash and near-cash investments, capital recycling and enhanced performance from existing investments.

The Company continues to see encouraging performance in its underlying investments and remains well positioned to capitalise on new opportunities across asset backed investment and debt markets in the UK and Europe.

Looking ahead, it is envisaged that the Company's portfolio will continue to undergo a steady process of enhancement focussed around the twin strategy of investing in debt investments where its capital can benefit from a preferred risk position and asset investments and co-investments with substantial cash flows.

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