18 August 2015

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

TRADING UPDATE AND DIVIDEND ANNOUNCEMENT

ART today publishes its trading update for the period ended 30 June 2015 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 or have scope to deliver underlying strong cash flows. The current portfolio mix, excluding sundry assets / liabilities, is as follows:

High yielding debt:	27.6%
High yielding equity in property investments:	25.9%
Ground rent investments:	19.6%
Private rented sector, residential	2.6%
Other investments:	8.0%
Cash:	16.3%

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, with a new investment secured and capital recycling and asset management successes in the existing portfolio:

- NAV per ordinary share 113.0p (113.2p: 31 March 2015).
- Adjusted earnings per share of 1.5p for the three months to 30 June 2015 (1.5p for three months to 30 June 2014).
- Dividend of 0.6p, for the quarter ended 30 June 2015, expected to be paid on 25 September 2015.
- Investment of £2.1 million for the purchase of Unity and Armouries, a central Birmingham development site with planning consent for 90,000 net developable square feet in 162 residential apartments with ground floor commercial units. The project has a potential gross development value in excess of £25 million. The new investment targets the increasing growth opportunities identified in the Private Rental Sector ("PRS") residential market as a result of rising occupier demand and an undersupply of accommodation.
- 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 in the first half of 2015.
- Amortisation of the ART loan to Europip; £0.8 million repaid following the sale of a non-core asset during the period. ART's loan position has reduced from £4.3 million to £0.6 million since the date of loan extension in November 2014.
- 93% of the Company's investment portfolio is in income producing investments in the UK and Europe.
- Income from core and non-core investments, both equity and high yield debt, continue to add to the Company´s earnings position.

Investment summary

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

Investment name Investment type	Investment value	Income return p.a.	Investment location	Property type / underlying security	Investment notes	% of portfolio [1]
High yielding debt (27.6%)						
Active UK Real Estate Fund plc ("AURE")						
Mezzanine loan	£9.8m [2]	9.0% [3]	UK	High-yield diversified portfolio	Preferred capital structure	12.2%
Industrial Multi Property Trust plc ("IMPT")						
Subordinated debt	£11.8m [2]	15.0% [3]	UK	High-yield diversified portfolio	Unsecured subordinated debt	14.7%
Europip plc						
Mezzanine loan	£0.6m [2]	9.0% [3]	Norway	Logistics, office and retail	Secured mezzanine loan	0.7%
High yielding equity in property investments (25.9%)						
H2O shopping centre						
Direct property	£15.5m (€22.0m)	14.2% [4]	Spain	High-yield, dominant Madrid shopping centre	Debt facility with no LTV covenant and a 1.1x ICR covenant	19.3%
Europip plc						
Indirect property	£2.8m (€4.0m)	6.9% [4]	Norway	A geared property investment vehicle invested in logistics, office and retail properties	Recently extended senior and mezzanine loan position	3.5%
Cambourne Business Park						
Indirect property	£1.6m	12.3% [4]	UK	High-yield business park located in Cambridge	Bank facility at 50% LTV (current interest cover of 2.4 times covenant level)	2.0%
Industrial Multi Property Trust plc						
Equity	£0.9m	n/a	UK	High-yield diversified portfolio	19% of ordinary shares in fund with medium term debt	1.1%
Ground rent investments (19.6%)						
Freehold Income Authorised Fund						
Ground rent fund	£15.8m	4.1% [5]	UK	Highly defensive income; freehold ground rents	No gearing; monthly liquidity	19.6%
Residential Development - Private Rented Sector (PRS) (2.6%)						
Unity and Armouries						
PRS development	£2.1m	n/a	UK	Central Birmingham residential development	Planning consent for 90,000 square feet / 162 units.	2.6%
Other investments (8.0%)						
Galaxia						
Indirect property	£4.5m (INR 450m)	n/a	India	Development site located in NOIDA, Delhi, NCR	Legal process underway to recover investment by enforcing arbitration award	5.6%
Healthcare & Leisure Property Limited						
Indirect property	£1.6m	9.7% [6]	UK	Leisure property fund	No external gearing	2.0%
Other	£0.3m	n/a	Varied	Varied	Varied	0.4%
Cash (16.3%)						
Cash (Company only)	£13.1m	0.1-1%	UK	Current or 'on call' accounts		16.3%

[1] Percentage share shown based on NAV excluding the rent company's sundry assets/liabilities
[2] Including accrued interest at the balance sheet date
[3] Annual coupon
[4] Over 12 months to 30 June 2015
[5] 12 months income return; post tax
[6] Return on the average investment during the ownership period

Further to the annual results published on 19 June 2015, the following are key investment updates:

New investment in the Residential Private Rented Sector ("PRS")

ART's investment targets the increasing growth opportunities identified in the PRS residential market as a result of rising occupier demand and an undersupply of accommodation. The opportunity exists to create a portfolio delivering a high yielding return on equity in a geared portfolio of assets with resilient income. The securing of a portfolio of critical mass will afford participation in a maturing market which is attracting greater institutional participation.

The development of PRS accommodation provides an opportunity to create resilient equity income returns at an attractive yield on cost, with potential for operating leverage to further improve returns. An investment also offers scope to secure capital growth as the sites mature or planning is enhanced.

Unity and Armouries, Birmingham

In July 2015, ART announced the acquisition of Unity and Armouries, a development located in central Birmingham with planning consent for 90,000 net developable square feet comprising 162 residential apartments with ground floor commercial areas.

There are no outstanding Section 106/Community Infrastructure Levy requirements and an affordable unit designation for nine flats. The current proposal provides for 2,892 square feet of commercial space and 98 car parking spaces.

Acquired for £2.1 million (including associated costs), the project has a potential gross development value in excess of £25 million.

High yielding equity in property investments

The UK and European economies in which ART operates have continued to progress towards economic stabilisation and growth despite headwinds from political uncertainties within the Eurozone.

Investor sentiment remains optimistic and there appears to be an increasingly confident view that the recovery will continue. In addition to an increased level of market transaction volumes and pricing for real estate and asset backed investments there has also been a broadening of investment criteria for both asset types and geography, indicating a more optimistic market outlook.

Occupier demand across the Company´s investment markets is showing signs of improvement. However, whilst leasing activity has increased, rental growth remains subdued. Increased leasing activity is however laying the foundation for improving rental growth prospects.

ART continues to remain focused on investments that offer potential to deliver high risk-adjusted returns via value enhancement through active asset management, improvement of net rental income, selective deployment of capital expenditure and the ability to undertake strategic sales when the achievable price is accretive to returns.

H2O shopping centre, Madrid

The H2O shopping centre investment in Madrid attracted the highest number of visitors for the first half of a year since opening with footfall for the period increasing 7.6% compared to the same period in 2014. This was considerably above the overall national footfall index increase of 1.3%. 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.

In 2015 to date, seven new leases have been signed (including store extensions and relocations) with a range of fashion, accessories and restaurant tenants.

High yielding debt

Over the past year, there has been a marked change in the availability of debt finance. Although still not at the levels reached in 2007, a general sentiment that real estate markets have normalised has led to higher loan to value ratios accompanied by lower financing margins.

There is an increasing view that the interest rate cycle is close to turning. However, from the current low base, even a moderate increase in base rates will still leave interest rates at comparative historic lows. This outlook, combined with recent reductions in lending margins, is helping to support a positive outlook for assets generally and real estate in particular. This trend is positive news for ART's debt investments which have increasingly protected exit positions upon refinancing.

European Property Investment Portfolio plc ("Europip")

Sales of non-core assets have continued, with the disposal of one of the assets charged to the senior bank facility completing in April 2015. Following partial amortisation of the bank debt facility, sales proceeds of £0.8 million were received by ART. The proceeds were used to amortise ART's loan investment in Europip to £0.6 million, which has amortised from £4.3 million at the time of the ART loan extension in November 2014.

Ground rent investments

The Company holds an investment in a fund which holds a diversified portfolio of UK residential property freehold ground rents with a view to achieving steady and predictable returns and a consistent income stream that has prospects for growth.

A ground rent is the payment made by the lessee of a property to the freeholder of that property. It represents the underlying freehold interest in a property which is subject to a lease for a period of time usually between 99 and 999 years.

Freehold Income Authorised Fund ("FIAF")

The Company has invested £15.8 million in FIAF as at 30 June 2015. FIAF has over 64,500 freehold ground rents and continues its unbroken 22 year track record of positive inflation beating returns, generating a total return for the twelve months ended 31 May 2015 of 9.98%. FIAF had cash of £33.8 million and no debt drawn as at 30 June 2015.

Other investments

Galaxia, India

On 2 February 2011, ART recommenced arbitration proceedings against its development partner Logix Group in order to protect its Galaxia investment.

During January 2015, 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 £4.5m using an exchange rate as at 30 June 2015) along with interest at 18% per annum from 31 January 2011 to 20 January 2015.
- All costs incurred towards the arbitration.
- A further 15% interest per annum 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.

The Company is actively seeking full recovery of the sums awarded. To this end, the Company has been awarded by the courts of India a charge over the private residence of the principals of Logix: Shakti Nath, Meena Nath and Vikram Nath.

In April 2015, the Company was notified that Logix has filed a petition under Section 34 of the Indian Arbitration and Conciliation Act, 1996 before the Delhi High Court challenging the Award made in favour of the Company by the International Court of Arbitration. The case is due to be heard in December 2015.

Following the determination of the arbitration noted above, the award to the Company represents a potential realisation of approximately £9.2 million. ART continues to hold the indirect investment at INR 450 million (£4.5 million) in the financial statements due to uncertainty over timing and final value.

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 the next dividend of 0.6p per share for the quarter ended 30 June 2015 which is expected to be paid on 25 September 2015 (ex dividend date 27 August and record date 28 August 2015).

Net asset value

The unaudited net asset value per ordinary share of the Company was 113.0p as at 30 June 2015 (113.2p: 31 March 2015).

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:€1.417, £1:NOK12.405 or £1:INR100.017, as appropriate.

Strategy and outlook

Taking advantage of the improving economic backdrop and increased investment market activity and pricing, the Company has sold a number of its non-core investments which has allowed capital to be recycled. As ART’s current investment portfolio is being improved, we continue to seek new opportunities focused around the twin strategy of investing in debt investments where capital can benefit from a preferred risk position and asset investments and co-investments with substantial cash flows or scope for high risk-adjusted returns.

The investment in Unity and Armouries, Birmingham demonstrates the Company's ability to secure not only new investments that offer scope for high total returns but to also capitalise on investment segments that are overlooked by many mainstream peers.

The Company is actively sourcing and analysing new investment opportunities and has the agility and financial reserves to capitalise on those that meet its investment criteria. Improving earnings and enhanced cash reserves position the Company for continued progress in the year ahead.

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