4 March 2016

**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 2015 and the period up until the date of this announcement. The information contained herein has not been audited.

## About the Company

ART ("the Company" or "ART") 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.

ART currently focuses on high-yielding property and asset backed debt and equity investments in Western Europe that are capable of delivering strong risk adjusted cash flows, including build to own investments. The current portfolio mix, excluding sundry assets/liabilities, is as follows:

| | |
|---|---|
| High yielding debt: | 23.2% |
| High yielding equity in property investments: | 35.7% |
| Ground rent investments: | 19.1% |
| Private rented sector, residential: | 7.0% |
| Renewables and infrastructure: | 1.6% |
| Other investments: | 7.1% |
| Cash: | 6.3% |

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 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 very active period, with new investments secured and asset management and capital recycling successes in the existing portfolio:

- NAV per ordinary share 125.1p (123.5p: 30 September 2015)
- Adjusted earnings per share of 5.3p for the nine months to 31 December 2015 (5.3p for the nine months to 31 December 2014)
- Dividend of 0.6p, for the quarter ended 31 December 2015, expected to be paid on 25 March 2016
- Investment of £3.75 million for the purchase of Monk Bridge, a central Leeds residential development site with planning consent for 269 apartments, representing over 140,000 net saleable square feet. The project has a potential gross development value in excess of £55 million
- Investment in renewable energy infrastructure: purchase agreement signed to acquire the long leasehold interest in a site in Acharn, Scotland with full planning consent and secure grid connection for the construction of a wood fired biomass Combined Heat and Power ("CHP") plant

    - The project targets increasing growth opportunities identified in the renewable energy sector which benefit from long term secure and predictable inflation-linked income streams substantially supported by the Renewable Heat Incentive (“RHI”) and Renewable Obligation (“RO”) support mechanisms
    - The Company’s proposed £2.45 million total investment (including costs), of which £1.4 million was invested in December 2015, will be funded from existing cash reserves. The 6 Megawatt electric (“MWe”) project has a potential gross development value in the region of £30 million and on completion the ability to deliver strong cashflows

- Cambourne: post period end, refinance of the non-recourse debt facility secured on the Cambridge business park investment, supported by an increased bank valuation.
- H2O: the Madrid shopping centre attracted record visitor numbers in 2015 (8.2% above 2014), reflecting the ongoing asset management initiatives, improved tenant mix and property improvements being implemented by ART
- Europip fully repaid the ART mezzanine loan of £0.6 million following the sale of a non-core asset during the period
- Amortisation of the ART subordinated debt to IMPT; £1.5 million repaid following the sale of non-core assets. ART’s loan position has reduced from £12.3 million to £10.3 million (including accrued interest) during the period
- 94% of the Company’s portfolio is allocated to investments in the UK and Europe that are or will be income producing
- 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<br>Investment type | Investment value | Income return p.a. | Investment location | Property type / underlying security | Investment notes | % of portfolio[1] |
|---|---|---|---|---|---|---|
| **High yielding debt (23.2%)** | | | | | | |
| Active UK Real Estate Fund plc ("AURE")<br>Mezzanine loan | £9.8m [2] | 9.0% [4] | UK | High-yield diversified portfolio | Preferred capital structure | 11.3% |
| Industrial Multi Property Trust plc ("IMPT")<br>Subordinated debt | £10.3m [3] | 15.0% [4] | UK | High-yield diversified portfolio | Unsecured subordinated debt | 11.9% |
| **High yielding equity in property investments (35.7%)** | | | | | | |
| H2O shopping centre<br>Direct property | £21.4m (€29.0m) | 15.8% [5] | Spain | High-yield, dominant Madrid shopping centre | Debt facility with no LTV covenant and a 1.1x ICR covenant | 24.6% |
| Europip plc<br>Indirect property | £2.4m (€3.3m) | 5.9% [5] | Norway | A geared logistics and office investment | 47% of ordinary shares in fund with medium term debt | 2.8% |
| Active UK Real Estate Fund plc<br>Equity | £3.9m | n/a | UK | High-yield diversified portfolio | 20.5% of ordinary shares in fund | 4.5% |
| Cambourne Business Park<br>Indirect property | £1.6m | 12.1% [5] | UK | High-yield business park located in Cambridge | Bank facility at 51.4% LTV (current interest cover of 2.5 times covenant level) | 1.8% |
| Industrial Multi Property Trust plc<br>Equity | £1.7m | n/a | UK | High-yield diversified portfolio | 19% of ordinary shares in fund with medium term debt | 2.0% |
| **Ground rent investments (19.1%)** | | | | | | |
| Freehold Income Authorised Fund<br>Ground rent fund | £16.6m * | 4.5% [6] | UK | Highly defensive income; freehold ground rents | No gearing; monthly liquidity | 19.1% |
| **Private Rented Sector (PRS) (7.0%)** | | | | | | |
| Unity and Armouries<br>PRS development | £2.3m | n/a | UK | Central Birmingham residential build to own | Planning consent for 90,000 square feet / 162 units plus commercial | 2.6% |
| Monk Bridge<br>PRS development | £3.8m | n/a | UK | Central Leeds residential build to own | Planning consent for 140,000 square feet / 269 units plus commercial opportunities | 4.4% |
| **Infrastructure (1.6%)** | | | | | | |
| Acharn<br>Biofuel power station | £1.4m | n/a | UK | Build to own wood fired Combined Heat and Power plant, Scotland | Site with full planning consent and secure grid connection | 1.6% |
| **Other investments (7.1%)** | | | | | | |
| Galaxia<br>Indirect property | £4.6m (INR 450m) | n/a | India | Development site located in NOIDA, Delhi, NCR | Legal process underway to recover investment by enforcing arbitration award | 5.3% |
| Healthcare & Leisure Property Limited<br>Indirect property | £1.6m | 10.0% [7] | UK | Leisure property fund | No external gearing | 1.8% |
| **Cash (6.3%)** | | | | | | |
| Cash (Company only) | £5.5m | 0.1-1% | UK | Current or 'on call' accounts | | 6.3% |

* Post period end a further £2 million was invested in Freehold Income Authorised Fund

[1] Percentage share shown based on NAV excluding the rent company's sundry assets/liabilities
[2] Including accrued coupon at the balance sheet date
[3] Including rolled up and accrued coupon at the balance sheet date
[4] Annual coupon
[5] Yield on cost over 12 months to 31 December 2015
[6] 12 months income return; post tax
[7] Return on the average investment during the ownership period

Further to the half year results published on 20 November 2015, the following are key investment updates:

## Further investment in the residential Private Rented Sector ("PRS")

ART's investment in PRS targets the increasing growth opportunities identified in the residential rental 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 portfolio of assets with resilient income.

The Company's PRS investments offer scope to create resilient equity income returns at an attractive yield on cost, with potential for operating leverage to further enhance returns. The investments also offer scope for capital growth as the sites mature or planning is enhanced. The acquisitions in Birmingham and Leeds assist in building a portfolio of critical mass to afford participation in a maturing market which is attracting greater institutional participation.

The investments provide the Company with flexibility to add value by either building with debt or contractor finance and subsequently holding the completed asset as an investment or forward selling all or some of the developed units. ART may also potentially benefit from government support for borrowings securing PRS assets under the private rented sector housing guarantee scheme.

Monk Bridge, Leeds

In December 2015, ART announced the purchase of Monk Bridge, a central Leeds development site. The site development has a total area of 1.7 hectares (4.2 acres) with implemented planning consent for 269 units totalling 140,000 square feet across two buildings with potential for ground floor commercial development within existing disused railway arches. The development earlier had outline consent, now lapsed, for 720 units, totalling 392,000 net saleable square feet.

The Monk Bridge 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 and follows the Company's investment in the Unity & Armouries site in Birmingham (announced July 2015)

The Company's £3.8 million (net of VAT, including associated costs) purchase of Monk Bridge was funded from cash reserves. The project has a potential gross development value in excess of £55 million.

## High yielding equity in property investments

Whilst many investment sectors suffered from bearish sentiment at the turn of the year, the UK and European real estate markets in which ART operates continue to stabilise and grow, albeit at varying rates. The low interest rate environment and the greater availability of debt funding continues to support investor demand, transaction volumes and pricing.

There are signs that occupier demand is improving across the Company´s portfolio with an improving volume of new leases signed in the AURE and IMPT portfolios in the UK and at H2O in Spain. Signs of increased leasing activity are typically a precursor to rental growth.

ART remains alert to opportunities that require complex but robust investment structures. This approach has served the Company well and provides a competitive advantage in selected markets in which investment activity and asset pricing could be perceived to be running slightly ahead of currently demonstrable occupational market fundamentals, making direct asset purchases less attractive.

Where there is scope to deliver strong underlying cashflows at an attractive risk-adjusted yield, the Company will consider diverse asset types if either income producing or through a build-to-own strategy where there is scope to generate long term income streams off a lower entry cost.

H2O shopping centre, Madrid

The H2O shopping centre investment in Madrid attracted record visitor numbers in 2015, with an increase of over 8% above the previous record year of 2014. This was considerably above the overall national footfall index increase of 1.3%. The increase in footfall is converting to improved store sales performance. 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, 13 new lease contracts were signed for over 2,000 square metres of space, enhancing the commercial mix of the centre.

Cambourne Business Park, Phase 1000, Cambridge

Phase 1000 consists of three quality grade A specification modern office buildings, totalling 9,654 square meters with 475 car spaces, located in the town of Cambourne, 8 miles West of Cambridge city centre. ART's equity represents 10% of the total equity commitment, invested into a joint venture entity, a subsidiary of which holds the property.

In February 2016 the non-recourse bank debt facility secured on the Cambourne asset was refinanced with a new four year £14 million facility on maturity of the previous £10.8 million loan.

## Renewables energy sector investment

Post period end, ART announced that it had entered a purchase agreement to acquire the long leasehold interest in a central Scotland land development site with full planning consent and secure grid connection for the installation of a biomass energy plant at Acharn, Killin, Perthshire, Scotland.

The Company's proposed £2.45 million purchase (including costs) of the long leasehold interest in the Acharn site of 6 hectares (15 acres), will be funded from existing cash reserves. £1.4 million was invested in December 2015. The 6 Megawatt electric ("MWe") CHP project has a potential gross development value in the region of £30 million, and on completion the ability to deliver strong cashflows.

ART is in advanced discussions with capital partners on co-financing options for the construction cost of the CHP plant, and the main construction and maintenance contracts with attached performance guarantees are also well advanced, in order to achieve commercial operations by 2017.

This project targets increasing growth opportunities identified in the renewable energy sector which benefit from long term secure and predictable inflation-linked income streams substantially supported by the RHI and RO support mechanisms.

This project represents the potential to benefit from a long term secure and predictable inflation-linked income stream with the potential for associated capital growth from an infrastructure asset in the UK renewable energy sector and benefits from the experience of the Investment Manager's renewables capabilities.

## High yielding debt

The real estate debt lending market remains active. Loan to value ratios have increased and interest rate margins have reduced. Increased debt liquidity from both traditional and new lenders in the market reflects a perception that risks and asset pricing have stabilised.

The combination of comparatively low interest rates and greater liquidity is positive for ART's equity investments where values and liquidity may be further enhanced. It also indicates increasingly protected exit positions upon refinancing for the Company's debt investments.

Although this remains a competitive environment, ART continues to explore, and is well positioned to take advantage of such opportunities in the less crowded market for smaller transactions in non-prime sectors where a demonstrably strong knowledge of the underlying assets is required.

The Company's investing policy allows for capital receipts from loan amortisations to be recycled across investment sectors and asset classes into opportunities that are best placed to meet ART's investment criteria. The recent PRS and renewable investments successfully demonstrate this approach.

European Property Investment Portfolio Limited ("Europip")

ART's loan investment in Europip has been fully repaid following the receipt of £0.6 million during the period following the sale of a non-core asset. ART continues to hold an equity stake in Europip.

Industrial Multi Property Trust plc ("IMPT")

The Company provides a subordinated debt facility to IMPT which expires in December 2018 and earns a coupon of 15% per annum. During the period, the loan was amortised from £11.8 million to £10.3 million (including accrued interest) following receipt of proceeds from the sale of non-core assets in the underlying fund.

Active UK Real Estate Fund plc

ART provides a £9.6 million two-year mezzanine facility, which matures in November 2016 and earns a coupon of 9.0% per annum. During the period, a roll-over fee of £0.2 million, equivalent to 2% of the loan balance, was paid on the first anniversary of the loan.

## Ground rent investments

Freehold Income Authorised Fund ("FIAF")

The Company has invested £16.6 million in FIAF as at 31 December 2015. FIAF has over 64,800 freehold ground rents and continues its unbroken 22 year track record of positive inflation beating returns, generating a total return for the half year to 30 September 2015 of 4.76% of net assets (of which 2.67% was distributed as income at the end of November 2015). FIAF had cash of £30.9 million and no debt was drawn as at 31 December 2015.

FIAF 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.

Post period end, the Company invested a further £2 million in FIAF.

## 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 £4.6m using an exchange rate as at 31 December 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.

Logix have appealed the Arbitral Tribunal decision in the Delhi High Court.

The Company is actively seeking recovery of the sums awarded and a charge over the private residence of the principals of Logix, Shakti Nath, Meena Nath and Vikram Nath, by the courts of India.

Following the determination of the arbitration noted above, the award to the Company represents a potential realisation of approximately £10.0 million. ART continues to hold the indirect investment at INR 450 million (£4.6 million) in the accounts due to uncertainty over timing and final value.

## Share buybacks

The Company will shortly be sending to shareholders a circular with a resolution to renew the buyback authority granted at the Annual General Meeting on 5 September 2014.

## Dividend

The Board announces the next dividend of 0.6p per share for the quarter ended 31 December 2015 which is expected to be paid on 24 March 2016 (ex dividend date 17 March and record date 18 March 2016).

## Net asset value

The unaudited net asset value per ordinary share of the Company was 125.1p as at 31 December 2015 (113.2p: 31 March 2015).

There was no revaluation of the Company's directly owned investment properties during the quarter to 31 December 2015.

## 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:€1.357, £1:NOK13.033 or £1:INR97.881, as appropriate.

## Strategy and outlook

The Company's portfolio provides a balance of stable high yielding investments and investments that offer scope to deliver strong cashflows and high risk adjusted returns.

During the reporting period, notable asset management successes were evident in the underlying assets with the H2O Madrid shopping centre having a record year and active leasing being reported in the IMPT and AURE portfolios in the UK. Capital recycling is anticipated to continue as a small number of selected strategic sales are planned to achieve prices that are accretive to returns.

The recent acquisitions of a further PRS site in central Leeds and the infrastructure investment in a biomass renewables site in Scotland demonstrate the innovative approach to secure assets that meet ART's selective investment criteria and create opportunities to generate long term income streams off a lower entry cost.

ART continues to actively source new investment opportunities and has the agility and financial reserves to capitalise on those that meet its investment criteria.

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