MATRIX

Matrix European Real Estate Investment Trust Ltd

www.mereit.info

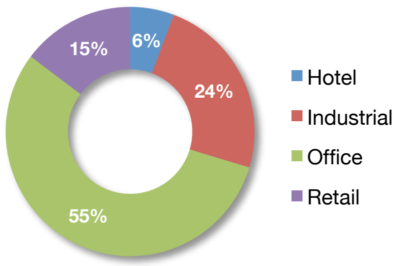
Property Portfolio

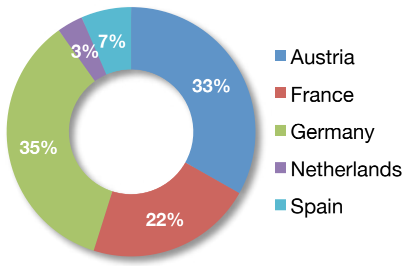
The property portfolio was last assessed at 31 December 2008 at a value of €727.5 million (30 September 2008: €765 million), representing a like-for-like fall of 5.5% for the quarter. Since the year end, the property in Münster has been sold, which reduces the portfolio value to €699.8 million.

The valuations have been performed by the independent valuers in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Standards. With the exception of the IZD Tower in Vienna ("Vienna"), which assumes a corporate sale (in accordance with previous practice), the valuations show the Market Value assuming an asset sale of each property.

The valuers noted that the level of activity in the European property investment market has been at a low level since the middle of 2007, primarily because of the reduced availability of credit and, where credit is available, the increased cost of borrowing. The lack of comparable market transactions has resulted in a greater than normal level of reliance being placed upon professional judgement in arriving at valuations. Furthermore, the lack of liquidity in the capital markets means that it may be very difficult to achieve a sale of property assets in the short-term.

The next portfolio valuation will be carried out as at 30 June 2009.





In releasing the Annual Report for the 12-months to December 2008, which can be downloaded by clicking here ☆, it was noted that challenging market conditions have meant that the solid underlying revenue performance of the Group had been far outweighed by the impact of weakening values.

Since that time, the Manager notes that investment activity in Europe during Q1 2009 has weakened considerably with activity down on average 45%, according to CBRE, when compared to the previous quarter. As a consequence of this, together with the continued lack of liquidity in the finance markets and increasingly negative expectations for economic growth across Europe, the Manager believes that the value of the portfolio has declined since the 2008 year-end and will continue to do so. The June 2009 valuation will likely show a substantial reduction in property values.

Additionally, due to weakening economic conditions there is heightened risk that tenants may become less able to meet their rental commitments and as a consequence may seek rental concessions or ultimately default on their obligations.

Net Asset Value

The latest NAV to be released is as at 31 December 2008. Net asset value per share ("NAV per share") fell by 91p (16.3%) over the quarter to 31 December 2008, bringing the NAV per share to 466p.

	31 December 2008	30 September 2008
Basic	466p	557p
Adjusted (cum-div)	484p	572p
Adjusted (ex-div)	484p	567p

Indebtedness

At 31 March 2009 the Group had approximately €470 million of loans outstanding. The average maturity date of the Group's loans is in June 2011. The earliest expiries are in December 2009 (€77 million) and a detailed breakdown is provided in the annual accounts.

The Group uses financial derivatives to hedge its exposure to movements in interest rates and exchange rates. As at 31 March 2009 the value of the interest-rate derivatives was a liability of £9.3 million, representing an increase in the liability of £4.4 million since 31 December 2008 (£4.9 million liability).

The value of the Group's foreign-exchange hedging contract, which exchanges €150.0 million for £101.3 million in June 2014 and €5.0 million to £3.7 million on a quarterly basis until June 2014, is a contingent liability of £53.2 million (comprising €35.0 million for the capital hedge and €18.2 million for the income hedge) compared with a liability of £57.8 million as at 31 December 2008.

Fund Manager

Matrix Property Fund Management (Guernsey) Limited.

Key Features

Listing Date	4 June 2007
Structure	Closed-ended investment company
Domicile	Guernsey
Listing	London Stock Exchange
Shares in Issue	37.7m
Distribution	Suspended
Performance Fee	20% of total shareholder return above 10% hurdle (subject to high watermark starting 31 Dec 2008)
Property Sector	All Commercial
Geographical Region	All Europe
Fund Denomination	Sterling
Share Price at 31 March 2009	29.75p (closing mid-market rate)
Distribution Yield	None
Valuations	30 June & 31 December

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Interim Management Statement

March 2009

Financial Covenants

As a consequence of the reduction in property values the Group's gearing, as at 31 December 2008, had risen to a loan to value ("LTV") ratio of 67.4%. The Group's LTV covenants can be summarised as follows:

- The loan for Vienna has a maximum LTV of 67.5% and is subject to a cash sweep at 65% LTV. Where the latter applies any surplus income is used to reduce the debt level. The LTV, as at 31 December 2008, was 63.9% based on the value of the property and assuming a sale of the owning company (which assumes sale costs of 1% as opposed to 6.4% for an asset sale) and is 67.3% based on the value of the property assuming a sale of the asset.
- The Lloyds Banking Group ("LBG") debt on the remainder of the portfolio, excluding Montpellier (which is ungeared), had an average LTV limit as at December 2008 of 78.5%. LTV limits vary by property and range from 72% to 85%. Average gearing for these properties, as at 31 December 2008, was 71.6%. Some loans are also subject to cash sweeps above certain LTV levels.

As at 31 March 2009, the Group had approximately €39 million of cash of which approximately €18 million is available to defend its financial covenants.

It should also be noted that in the event of material tenant failure then, under the terms of several of the Group's loans, the lender can call an event of default.

Foreign Exchange Covenants

The foreign-exchange derivative contract, which is secured on substantially all the assets of the Group, is subject to several financial covenants, which can be summarised as follows:

- The gross asset value of the Group's portfolio is to exceed €500 million.
- The Group is to have a net asset value (excluding the value of the foreign exchange and interest rate swap contracts) in excess of £150 million.
- The portfolio LTV ratio is not to exceed 75% on a consolidated reporting basis.
- The portfolio interest cover ratio must exceed 140%.
- A cross default clause, such that covenants within the individual debt facilities of the Group's subsidiaries must not be in default.

On the basis of currently available, unaudited information the Group is in compliance with the above covenants as at 31 March 2009.

If there were to be a breach of any of the above covenants, including the cross default, then LBG, the counter-indemnity party, could call for the FX contract to be settled in cash, which would trigger the payment of the FX liability noted above. The cost of this potential liability will vary as exchange rates change.

Whilst the Group can use its cash resources to defend individual loans against breach of LTV covenants (and thus to defend against a breach of the cross default), these cash resources are not sufficient to remedy LTV covenant breaches if the decline in property values exceeds a certain level. As well as marketing properties for sale, the Group has been considering with its bankers the possible impact of declining values on its various covenants and has been exploring the possibility of an early refinancing of its loans, particularly those that mature in December 2009.

Portfolio Refinancing

Whilst currently in compliance with its financial covenants, the Group expects values to continue to fall and as a consequence of this remains in negotiation with LBG with regard to refinancing the remainder of the Group's debt, which totals €321.5 million and matures between December 2009 and December 2012 (further details are set out in the Annual Report). A proposal to extend and refinance all of the loans on new terms, with senior and mezzanine tranches, is under advanced discussion and in the event that these negotiations are successful they are likely to result in significant legal and loan fees along with substantial margin increases and potential loss of control rights. The Group has appointed Rothschild to provide advice in this regard.

As part of the Group's negotiations with LBG, the covenant terms of the foreign exchange contract, which are also detailed within the Annual Report, may be amended to bring them in line with the new LBG debt facility.

The Group has been in negotiation with Hessen-Thüringen Landesbank ("Helaba") as principal lender on the Group's €148.5 million facility that finances the IZD Tower in Vienna in order to extend the loan, which currently expires in October 2011, on new terms. Helaba's credit committee has not approved this proposal and consequently a refinancing will not take place at this time, although discussions continue. At present the Group remains in compliance with its covenants under the Helaba facility.

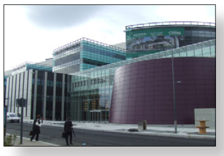
Düren

Europort

Leiden

Valladolid

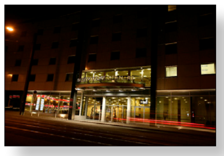
Saint-Etienne



Nice

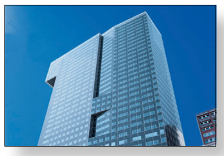
Cordoba

Düsseldorf



Kaiserslautern

Vienna



Madrid

Lyon

Montpellier

Celle

Murcia

Following the June valuations the Group may need to utilise cash in order to pay down debt to defend against falling property values. Cash reserves of circa €18 million as at 31 March 2009 are available to pay down debt. In addition, the Group is still actively pursuing sales, in order increase cash reserves so as to be able to defend financial covenants, and may be forced to consider alternative capital raising options which may be dilutive to existing shareholders.

Dividend

As market conditions remain challenging, and in anticipation of possible further falls in value during 2009, the Board still considers it prudent to retain cash within the Group in order to bolster reserves so as to be able to reduce the level of debt in the portfolio as and when required. The Board has therefore decided to continue the suspension of dividend payments until further notice.

Asset Management

The Board is pleased to announce that a restructuring of the lease at the Group's Leiden property has now been documented which sees the property's main tenant, Jacobs Engineering, commit to the property for a new term of ten years. The lease expiry date moves from February 2011 to March 2019.

At Lyon, all planning and other conditions have been settled which has enabled construction to get under-way to extend the property and we expect works to be completed in August, at which point the tenant, La Poste, will enter into a new nine year lease commitment.

Property Portfolio & Gross Asset Values (31 December 2008)

Country	Properties	Use	€0-50m	€50-100m	€100-200m	€200m+
Austria	Vienna	Office				■
France	St Etienne	Office		■		
	Nice	Office	■			
	Lyon	Industrial	■			
	Montpellier	Office	■			
Germany	Frankfurt	Industrial			■	
	Düren	Retail		■		
	Dusseldorf	Hotel	■			
	Kaiserslautern	Retail	■			
	Celle	Retail	■			
Netherlands	Leiden	Office	■			
Spain	Valladolid	Industrial	■			
	Madrid	Industrial	■			
	Cordoba	Industrial	■			
	Murcia	Industrial	■			
Total			**11**	**2**	**1**	**1**

Major Tenants

Ranking	Tenant	Location	Rent pa	Proportion
1	Casino	St Etienne	€6.6m	13.1%
2	IBM	Nice	€3.6m	7.2%
3	Panrico	Spain	€3.5m	6.9%
4	ÖBB	IZD Tower	€3.0m	6.0%
5	Schenker	Europort	€2.9m	5.8%
6	NH Hoteles	Düsseldorf	€2.8m	5.6%
7	Ernst & Young	IZD Tower	€2.1m	4.2%
8	Baxter AG	IZD Tower	€2.1m	4.2%
9	Holmes Place	IZD Tower	€1.8m	3.5%
10	La Poste	Lyon	€1.5m	3.0%
Total			**€29.9m**	**59.5%**

The Board notes the statement issued by NH Hoteles ("NH") on 13 May in which it set out its reduced performance due to challenging trading conditions and the proposed issuance of new shares in a €197.2 million rights issue. Further details can be found on their web site: www.nh-hotels.com. To date, NH remains in compliance with its rental obligations under its lease at Düsseldorf.

Important Notice

This announcement is not a preliminary statement of the Group's financial results. The financial information contained herein is not audited and is subject to change. The Group expects to publish its audited financial statements for the half year ended 30 June 2009 in August 2009.

It should be noted that the prospect of devaluation across the European property market, the limited headroom under the Group's financial covenants, limited free cash reserves and the low volume of transactions in the investment market combine to raise material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern, and its prospects over the next twelve months.

As economic growth weakens across Europe this will weaken tenant demand for accommodation and create additional tenant default risk within the portfolio. This will have negative consequences for the level of income produced by the portfolio and for income and tenant related financial covenants.

Release Date: 19 May 2009