

## **McKAY SECURITIES PLC**

### **INTERIM MANAGEMENT STATEMENT**

This Interim Management Statement relates to the period since the Group's financial year end on 31<sup>st</sup> March 2009 and is being released to coincide with the Group's Annual General Meeting later today.

#### **Market Review**

The most recent release from the IPD Monthly Index was for June 2009, indicating that the capital value of all property within the Index fell by 1.2%, representing the smallest decline since May 2008. This takes the decline in the Index to an unprecedented 44% since prices peaked in June 2007. As the pace of decline in values slows, more investors are re-entering the market, focusing on the most secure income producing assets and this demand has resulted in values increasing in some cases. Where income returns are at risk and where there is a need for refurbishment or development expenditure, investors remain risk averse and pricing is likely to continue to decline, albeit at a slower pace.

Trading conditions remain challenging for occupiers and show little sign of improvement. Within the office and industrial sectors of the South East, which account for 68% of the Group's portfolio, landlords have lowered their rental expectations faster than in previous cycles to retain and attract occupiers, as the cashflow implications of void rates are now more significant. Headline rental values and letting incentives have therefore moved in favour of the occupier, particularly in the case of new lettings. Cost conscious companies are taking advantage of lease breaks and expiries to renegotiate terms, but the cost of relocation is a significant factor in the landlords favour. Business failure and tenant default across the market as a whole will increase unless trading conditions improve ahead of general economic expectation.

#### **Portfolio Review**

Despite the challenging economic conditions, rents received from the portfolio at the June 2009 quarter remained resilient and consistent with previous periods, with over 90% of rents demanded received within seven days of the due date.

11,000 sq ft was let over the period, at a total contracted rent of £177,500 pa and 9,200 sq ft of lease renewals were completed; rents achieved were at or in excess of estimated levels. This assisted the portfolio void which increased by 1% to 11%, mainly due to the ground and first floors of 30/32 Lombard Street, EC3 becoming vacant after the exercise of a break clause. Enquiry levels in respect of the Group's portfolio voids generally improved after a quiet six month period. Refurbishment expenditure is limited, and no developments are under construction.

The sales of two mature investment properties in Thatcham and Petersfield were completed at a combined price of £3.88 million, in excess of the 31<sup>st</sup> March 2009 valuation. Rental income from

the two properties totalled £425,000 per annum on leases with less than five years to expiry or break clause. The proceeds will be reinvested where there is greater potential to add value.

The independent valuation of the Group's portfolio at 31<sup>st</sup> March 2009 totalled £224.08 million. The next valuation will be at the half year (30<sup>th</sup> September 2009).

### Financial Review

Net debt at 22<sup>nd</sup> July 2009 was £112.6 million (31<sup>st</sup> March 2009 - £115.4 million), reduced by the net proceeds from the sales referred to above, and the Group's loan to value following the disposals is marginally lower at 51%. With secured banking facilities of £185.0 million, of which £155.0 million has at least six years to expiry, the Group has competitively priced debt available with no short term refinancing risk. The Group remains compliant with all banking covenants, and retains headroom to accommodate further falls in the capital value of the portfolio of up to £30 million.

### For further information contact:

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23<sup>rd</sup> July 2009