McKAY SECURITIES PLC
("The Group")

FIRST QUARTER INTERIM MANAGEMENT STATEMENT

This Interim Management Statement is issued by McKay Securities PLC, the Real Estate Investment Trust specialising in South East and central London office and industrial property, for the period from 1st April 2012 to 19th July 2012, ahead of its Annual General Meeting to be held at 12 noon today.

- **Portfolio void reduced to 8.9% (31st March 2012: 13.3%), with five new tenants signed up at contracted rents totalling £976,650 pa.**
- **Refurbishment of 203 Blackfriars Road, SE1 and a pre-let to the Overseas Development Institute completed on programme.**
- **Lease extension to the Student Loans Company for 100,270 sq ft completed at 100 Bothwell Street, Glasgow.**
- **Earnings enhancing acquisition of Pinehurst Park, Farnborough.**
- **Resilient quarterly income maintained.**

It has been an active and productive period for the Group. Two major lettings have reduced the portfolio void and improved the income profile of the portfolio. The acquisition made during the period offers a number of opportunities to deliver shareholder value, and the Group continues to monitor the market for assets with growth potential.

Market Review

There has been little change over the period from the market conditions reported in the Group's announcement of results on 29th May 2012. Across the Group's South East office markets, which account for 30% of the portfolio by value, uncertainty regarding the European economy and its impact on UK growth has delayed decision making on occupational property matters. The volume of letting transactions over the period was lower than the previous quarter but named occupier demand was higher. This sustained level of occupier demand reflects the large number of lease expiries and break clauses due over the next three years as long leases granted in the 1980's and short term lease renewals come to an end. This provides occupiers with the opportunity to upgrade their accommodation which is maintaining the take up of new and Grade A buildings. Limited supply and a constrained development pipeline continue to enhance the prospects for a supply led recovery in rental values when occupier confidence and take up levels increase.

The differential between prime and secondary property values generally has continued to increase as bank debt remains limited and equity buyers remain focused on prime assets with secure income. This provides improving prospects for acquisition opportunities where the Group's experience in capital investment and asset management can add value.

Portfolio Review

In June 2012, the Group acquired Pinehurst Park, Farnborough for £3.5 million from Receivers, providing an initial income yield of 35%. The property, which totals 2.8 acres in central Farnborough, comprises a former

Victorian convent and a modern office building totalling 63,600 sq ft, let to IBM until 2016. The yield is expected to reduce to 13.5% in January 2013 when IBM can exercise a Deed to extend their occupation to 2018 and surrender part of their office accommodation, including the former convent, where disposal for residential conversion is planned. Thereafter, the Group will pursue an uplift in capital value through planning consent for a change of use of the balance of the site for residential redevelopment, enabling a possible sale on or prior to expiry of IBM's occupation.

Within the portfolio, five open market lettings were completed over the period at a total contracted rent of £976,650 pa. This was 5.5% ahead of valuation rental assumptions. The most significant letting was of 203 Blackfriars Road, London, SE1 (21,020 sq ft), where comprehensive refurbishment works completed on programme on 9th July. As a result, the pre-let agreed with the Overseas Development Institute has now completed at a rent of £802,700 pa for a twelve year term certain, with a twenty four month rent free period.

Where lease breaks or expiries occurred across the portfolio during the period, a high retention rate was maintained with 70% of tenants remaining in occupation, securing rent of £527,000 pa. At 100 Bothwell Street, Glasgow (100,270 sq ft), a ten year lease extension (with a tenant break in December 2018) was agreed with the existing occupier to commence at lease expiry in December 2013. At that time the current rent of £1.95 million pa will increase to £1.97 million after a 15 month rent free period.

The portfolio void (by rental value) reduced from 13.3% (31st March 2012) to 8.9%, equivalent to a total rental value of £1.67 million. The five largest voids within the portfolio, which together account for 71% of this void, total 72,000 sq ft and are all being marketed actively.

Rental income continued to be resilient. Rents received within seven days of the June 2012 quarter day exceed the Group's target of 90%, and there were no tenant insolvencies.

The Group remains in a sound financial position with no near term refinancing. Drawn debt increased by £5.5 million over the period to £106.0 million, due to acquisition and property expenditure, leaving the Group 99% hedged. Headroom of £49.0 million to total facilities of £155.0 million remains. Of this, approximately £4.00 million is currently identified for expenditure on portfolio properties and acquisitions.

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