McKay Securities PLC

THIRD QUARTER INTERIM MANAGEMENT STATEMENT

SOUTH EAST FOCUS INTENSIFIED AFTER STRATEGIC GLASGOW DISPOSAL

McKay Securities PLC ("the Group"), the Real Estate Investment Trust specialising in London and South East office and industrial property, announces its Interim Management Statement in respect of the period from 1st October 2012.

Highlights

- **Portfolio allocation entirely in London and the South East following the disposal of 100 Bothwell Street, Glasgow for £16.79 million (8% surplus over book value)**
- **Acquisition of 66 Wilson Street, London, EC2 for £3.60 million**
- **Planning consent granted for residential use of the former Convent, Pinehurst Park, Farnborough**
- **6 new leases signed at a combined contracted rent of £381,800 pa; 9.9% ahead of September 2012 rental values**
- **Portfolio occupancy increased to 93% (September 2012: 91%)**
- **Resilient quarterly income maintained**

Market Overview

The Group's commercial markets within London and the South East remain characterised by increasingly low vacancy rates for new and Grade A buildings. This is due to a limited development pipeline and letting transactions which continue to highlight the preference of occupiers for better quality buildings. Rental values have picked up in the most undersupplied locations but demand levels need to increase before this extends more generally.

Investment values for properties with longer term secure income remain steady, underpinned by demand from overseas buyers particularly in London. Exposure to higher yields achievable outside London is attracting new investors, particularly for recovery stock where pricing is becoming more in line with market expectations.

Within the established office centres to the west of London, which account for 43% of the Group's portfolio, named occupier demand at the end of 2012 totalled 3.6 million sq ft, which has remained at a steady level for the last two years (source: Strutt and Parker). Lettings for the year totalled 1.3 million sq ft, of which 78% was in respect of new and Grade A buildings. Although below the 1.9 million sq ft achieved in 2011, letting transactions totalling 0.9 million sq ft were in solicitor's hands at the end of the year. The vacancy rate for new and Grade A buildings has reduced to a low level of 7.1% (September 2012: 7.7%). This is likely to remain low, as the development pipeline is constrained and a significant proportion of the 16 million sq ft of office space with lease breaks and expiries over the next three years is increasingly obsolete. These characteristics limit occupier choice and work to the Group's advantage as a provider of good quality buildings in these markets.

Portfolio Review

The most significant event for the Group over the period was the freehold disposal of 100 Bothwell Street, Glasgow (100,270 sq ft) for £16.79 million. The sale price represented an 8% surplus over book value (30th

September 2012) for the property, which was developed by the Group in 1988. The disposal on 4th January 2013 followed the uplift in value secured in May 2012 when a lease extension was agreed with the Student Loans Company. The proceeds will be recycled into commercial property within the Group's core London and South East markets that replace income with the potential to add value through development, refurbishment or active management. The disposal leaves the Group's portfolio located entirely within these markets, split into three main sectors: South East offices 43%, London offices 34%, South East industrial 21% and residential/retail 2% (by value as at 30th September 2012 valuation).

The Group acquired 66 Wilson Street, London, EC2 in December 2012 for £3.6 million at an initial yield of 9.9%. The office building, which totals 12,345 sq ft, was built in 1988 and occupies a prominent corner location just to the north of Broadgate and Finsbury Square. This location is benefiting from increasing TMT occupier demand and the anticipated impact of Crossrail. The building is let until June 2013, at which time either the tenant may choose to extend its occupation or the Group will implement a comprehensive refurbishment.

At Pinehurst Park, Farnborough (acquired in June 2012) planning consent permitting conversion from office to residential use has been achieved for the former Convent (13,400 sq ft), which is being marketed freehold at a price of £900,000. Disposal of the Convent was the planned first phase for this asset, leaving the balance of the site (2 acres approx) with a secure running yield (on cost, less estimated net disposal proceeds from the Convent) from the retained office element of 17% until February 2018, during which time the potential for an uplift in value from residential consent will be explored.

Planning consent has also been achieved for external and internal improvement works to Doncastle House, Bracknell (33,600 sq ft). The remodelling of the reception area and common parts were part of the planned management of this office property on acquisition in November 2011, and will enhance letting prospects and rental values.

Three open market lettings were completed over the period within the portfolio totalling 12,700 sq ft, at a combined contracted rent of £277,750 pa. This was 9.1% ahead of September 2012 valuation rental assumptions. These included the letting of the 3rd floor at Mallard Court, Staines to accommodate the expansion of an existing occupier.

At lease break and lease expiry a high retention rate was maintained with 60% of tenants remaining in occupation. Three leases were renewed at a total contracted rent of £104,050 pa, which was 12.0% ahead of September 2012 valuation rental assumptions.

Portfolio occupancy (by rental value) increased to 93% from 91% (30th September 2012). The five largest void buildings, totalling 76,000 sq ft, account for 73% of this void (by rental value). These are all located in established centres and are being marketed in good condition to enhance letting prospects.

Rents received within seven working days of the December 2012 quarter day continued to exceed the Group's target of 90%. Tenants paying rents on a monthly basis remain low and well below 5% of rents demanded. There were no tenant insolvencies over the period.

The next external valuation of the Group's portfolio, valued at £222.4 million at 30th September 2012, will be at 31st March 2013 and will be reported within the Group's year end results at the end of May 2013.

The Group has maintained a sound financial position with £155.0 million of loan facilities secured until at least 2016. Interest rate hedging facilities totalling £105.0 million remain in place. Drawn debt reduced to £94.5 million (30th September 2012: £108.0 million) on receipt of disposal proceeds from 100 Bothwell Street, Glasgow. The Group is looking at opportunities to recycle these proceeds.

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