McKAY SECURITIES PLC ("the Group")
TRADING UPDATE
1st October 2015 to 23rd February 2016

McKay Securities PLC, the only Real Estate Investment Trust specialising entirely in the South East and London office and industrial markets, today announces a trading update for the period 1st October 2015 to 23rd February 2016.

Commenting on trading, Simon Perkins, Managing Director of McKay said:

"We reported strong growth in capital values and earnings for the first half of the year in November 2015. Since then, our primary focus has continued to be on the release of further value from the significant potential within our existing portfolio. Good progress has been maintained; committed development projects remain on programme, leasing activity has been positive in securing rental values ahead of ERV, and property disposals have released substantial gains for reinvestment.

Tenant demand for business space across London and the South East has proved resilient so far this year and supply remains well below average. Named demand in the South East office market at the end of the year was 9.3% higher than at the end of 2014. This continues to be driven by obsolescence of existing space, companies with plans for expansion and consolidation, and a gradual increase in the number of enquiries from London occupiers looking for the combined benefit of lower occupational costs and Crossrail / mainline improvements.

The prospects for rental growth from this imbalance between supply and demand continues to support our strategy of positioning the portfolio within these markets."

Leasing Activity

Thirteen market lettings were completed over the period, at a combined contracted rent of £0.74 million pa. This was 5.6% ahead of our valuer's September 2015 estimates (ERV). Refurbishment and active management of the portfolio has continued to generate letting success with:

- Conversion of the previously reported interest at 329 Bracknell into six further lettings. The building is now 83% let, with four vacant units remaining. The quoting rent has recently been increased to £24.50 psf, which compares with £15.00 psf assumed prior to the refurbishment.

- The letting of Unit 6 (4,519 sq ft) at Switchback Office Park, Maidenhead on a 15 year lease with no breaks at a new benchmark rent for refurbished floor space at the Park of £0.12 million pa, equivalent to £26.00 psf. The tenant re-located from Unit 5 (8,641 sq ft), which is now being refurbished.

- A significant increase in rental value achieved at Portsoken House, EC3 with the letting of the 5th floor (5,066 sq ft) at a contracted rent of £0.25 million pa, equivalent to £49.00 psf. The quality of the refurbishment attracted strong interest, and the rent achieved has also established a new benchmark rent in the building, where a rolling programme of refurbishment is continuing.

- Completion of the pre-let conversion of Strawberry Hill House, Newbury from office use to medical centre and commencement of the 25 year lease, on programme for the end of March 2016 at £0.26 million pa.

- Further gains in rental tone at The Mille, Brentford where the refurbishment programme and high central London rents helped secure £23.00 psf for the part 11th floor (2,883 sq ft).

At lease break and lease expiry, fourteen out of twenty two tenants were retained, maintaining a high retention rate of 63.6%. Contracted rental income from the two lease renewals was 12.4% ahead of passing and at a 4.4% premium to ERV.

Completed lettings and the high tenant retention rate resulted in portfolio occupancy (excluding developments) increasing over the period to 94.0% (30th September 2015: 92.7%).

Development Programme

Our three speculative office schemes, totalling 144,300 sq ft, make a significant contribution of £5.96 million pa to the total estimated portfolio reversion of £9.98 million pa.

At 9 Greyfriars Road, Reading the comprehensive refurbishment of the existing 38,200 sq ft building remains on programme for completion in May 2016. Cladding works have been completed and the internal fit-out is now underway. Once completed, the building will offer top quality office floor space in close proximity to the recently upgraded station, which will become an even greater attraction with the completion of Crossrail in three years time.

At Redhill, the construction of a new 48,000 sq ft office building also remains on programme, scheduled for July 2016. Supply levels of modern floor space remains low in the area, and the completed building is expected to attract attention locally as well as those considering mainline rail access to London.

In the City of London, demolition of 30 Lombard Street, EC2 is underway and delivery of the replacement 58,000 sq ft office scheme remains programmed for mid 2018. A pre-let marketing campaign to ensure full awareness of this prime scheme will commence in the summer.

Acquisitions and Disposals

Having completed an active phase of 8 acquisitions during 2014/2015 at an inclusive cost of £73.83 million, no further acquisitions were made during the period, although prospects continue to be assessed. Yields have now generally stabilised across our markets, supported by continued investor appetite.

The previously reported freehold disposal of 202 and 203 Blackfriars Road, London, SE1 achieved £21.50 million in December 2015, which was 5.4% over book value as at 30th September 2015. The price reflected an initial yield of 3.8% and secured a significant surplus over the historic cost of £7.40 million generated by the successful refurbishment in 2011. Further opportunities to recycle capital through selective disposals remain under active consideration, particularly smaller assets.

Finance

Following the loan refinancing in May 2015, the Group retains a strong financial position. Drawn debt reduced by £6.00 million over the period to £126.00 million as a result of disposal proceeds, offset by project expenditure and payment of the interim dividend. Headroom to loan facilities of £175.00 million is £49.00 million, of which £38.00 million is committed capital expenditure for the development programme.

Loan to value reduced to 31.6% based on the last valuation at 30th September 2015. The next portfolio valuation at 31st March 2016 will be reported with the year end results in May 2016.

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