

**McKAY SECURITIES PLC (“McKay” or “the Group”)
TRADING UPDATE
1st October 2016 to 3rd March 2017**

McKay Securities PLC, the only UK REIT specialising entirely in the South East and London office and industrial markets, today announces a trading update for the period 1st October 2016 to 3rd March 2017.

Commenting on trading, Simon Perkins, Chief Executive of McKay said:

“At the half year we reported good progress towards our objective of realising the substantial income potential from our portfolio, and I am pleased to say this has gathered further momentum.

The development of Prospero, our new office building in Redhill, was completed in November and we have recently announced our first letting on excellent terms, reflecting the quality and appeal of the scheme. Recent refurbishment initiatives and our proactive in-house management have secured new lettings and lease renewals, also at rents ahead of valuation assumptions. Our recycling of assets has continued with the exchange of unconditional contracts for the sale of Pinehurst Park, Farnborough for £5.88 million, generating a return on cost of 71.9%.

Across our markets, economic and political uncertainty since the BREXIT vote has increased occupier and investor sensitivity to risk. Despite this, occupier take up in the South East office market in 2016 held up well, totalling 1.96 million sq ft; 8.7% lower than 2015 but 28.1% ahead of 2014. The M25 and M4 regions have vacancy rates well below the long term average, and occupier demand for office space remains steady and focused on new and Grade A availability – positive market conditions for our recently completed schemes in Redhill and Reading, which continue to generate interest.”

Leasing Activity

Ten open market lettings were completed over the period at a combined contracted rent of £0.73 million pa; 2.8% ahead of September 2016 valuation assumptions (ERV). In addition to the previously announced letting at Redhill referred to below, new letting activity took place at the following properties.

- One Crown Square, Woking continued to attract tenants following completion of the refurbishment of the 5th and 6th floors and the upgrading of the reception and other common areas. Seven new leases were signed, the most significant being the entire 6th floor (7,850 sq ft) on a 10-year lease with no break, and only 1,621 sq ft remains to let on the 5th floor. Rents achieved were in the region of £24.00 psf (at ERV), maintaining rental growth in the building.
- At The Mille, Brentford, the rental tone has also increased with the latest lettings. Following completion of the refurbishment of half the 4th floor and the whole of the 6th and 7th floors, the refurbished 4th floor (3,940 sq ft) has been let at £26.00 psf. This is a 30.0% increase in ERV from the date of acquisition in 2014 and 4.2% ahead of current ERV.
- At 329 Bracknell, the provision of smaller suites continues to meet occupier demand. The most recent letting to Carillion Plc (1,744 sq ft) achieved a rental high for the building of £24.50 psf; 9.2% ahead of ERV.

At lease break and expiry, a high tenant retention rate of 78.9% was maintained, securing a combined contracted rent of £1.12 million pa. This included the renewal of three leases that expired over the period,

where the combined contracted rent achieved of £0.73 million pa was 4.9% ahead of ERV and 15.7% ahead of the previous passing rent.

- The most significant renewal was at Gainsborough House, Windsor (18,660 sq ft), where a 10-year lease extension has increased the passing rent by 12.8% to £0.58 million pa; 4.8% ahead of ERV.

Development Programme

The development of Prospero, Redhill completed in November 2016, providing the only new build office floor space available to let in this well-established market. The building, totalling 50,370 sq ft on ground and three upper floors, has achieved BREEAM 'Excellent' and EPC A ratings. The early letting of the third floor (10,643 sq ft) has been achieved to Morrisons Solicitors LLP on a 10-year lease term (without break). The rent of £0.33 million pa, equivalent to £31.00 psf, is in excess of ERV and represents a new rental high for Redhill.

Marketing of the remaining floors at Prospero, and at 9 Greyfriars Road, Reading (39,620 sq ft) continues to generate encouraging interest.

The redevelopment of 30 Lombard Street, EC3 remains on programme for delivery by mid 2018. Letting agents have been appointed, and will be implementing a formal marketing campaign for this high quality City core scheme (totalling 58,000 sq ft).

Disposals

Unconditional contracts for the sale of the Group's remaining freehold interest at Pinehurst Park, Farnborough were exchanged in February 2017 for £5.88 million, representing an 11.5% premium to book value. The purchaser has paid a non-returnable £1.00 million deposit, and the Group will retain income through to completion on 28th November 2017. Net disposal proceeds from Pinehurst Park will total £6.36 million, representing a 71.9% return on cost. In addition, the Group will have received rental income totalling £3.34 million since acquisition.

Finance

In December 2016, the notional value of the Group's interest rate swap was reduced by £12.00 million to £33.00 million at a cost of £5.08 million, with an additional contribution by the counterparty bank. Further action is kept under regular review.

Drawn debt increased by £6.00 million over the period to £136.00 million, mainly due to capital expenditure on development and refurbishment projects and the swap reduction cost. Headroom available under the loan facilities is currently £39.00 million.

Loan to value, based on the last valuation at 30th September 2016, increased marginally to 32.9%. The next portfolio valuation at 31st March 2017 will be reported with the year end results in May 2017.

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