

## **THIRD QUARTER INTERIM MANAGEMENT STATEMENT**

McKay Securities PLC (“the Group”), the Real Estate Investment Trust specialising in South East and London office and industrial property, announces its Interim Management Statement in respect of the period from 1<sup>st</sup> October 2013 to 27<sup>th</sup> January 2014.

### **Highlights**

- **Portfolio valuation dated 17<sup>th</sup> January 2014 (to accompany Capital Raising) up 1.4% (£3.15 million) since 30<sup>th</sup> September 2013 to £236.30 million.**
- **Acquisition of 1 Crown Square, Woking for £6.0 million in January 2014.**
- **Eight new lettings signed with a combined contracted rent of £0.5 million pa.**
- **Three portfolio refurbishment projects on site.**
- **Portfolio occupancy maintained at 89% (30<sup>th</sup> September 2013: 89%)**

**The Company has today announced a Capital Raising of £86.7 million. Further information in respect of the Capital Raising is contained within a separate announcement.**

### Market Overview

Across the Group’s markets, limited development finance, planning constraints and uncertain viability have all contributed to restrain development activity in recent years. This is particularly the case in the South East office market, which accounts for 43.0% (by value) of the Group’s portfolio, where the supply of Grade A and new floor space has reduced significantly over the last three years. Within this market, lettings for 2013 are set to be the highest since 2007 and nearly double the 2012 level of 1.4 million sq ft. There is also an estimated 16.8 million sq ft of lease breaks and expiries over the next three years with increasing obsolescence in older buildings. It is expected that these factors will limit occupier choice at a time of improving market confidence and tenants are likely to want to upgrade their properties at lease break or expiry. This combination of factors is already generating a recovery in rental and capital values.

### Portfolio Review

Over the period the freehold acquisition of 1 Crown Square, Woking increased the number of assets within the portfolio to thirty-six. This multi-let property, totalling 51,500 sq ft is located in central Woking. It was purchased at a price of £6.00 million, providing an initial yield of 9.3% from an annual net rent of £588,150. In the short term there is potential to increase the low average rental value of £11.60 psf, with the scope for a more substantial refurbishment or redevelopment in the medium term.

The independent valuation of the portfolio, carried out on 17<sup>th</sup> January 2014 to accompany the Capital Raising, totalled £236.30 million (30<sup>th</sup> September 2013: £225.87 million). After taking into account acquisition costs and capital expenditure, this resulted in a surplus of 1.4% (£3.15 million). The portfolio initial yield was 5.8% (30<sup>th</sup> September 2013: 5.6%) increasing to 6.8% (30<sup>th</sup> September 2013: 6.7%) on contracted rents once letting incentives expire. The reversionary yield of the portfolio at market rental value, which increased to £17.84 million with the Woking acquisition (30<sup>th</sup> September 2013: £17.24 million) was 7.1% (30<sup>th</sup> September 2013: 7.2%).

Eight open market lettings were completed over the period within the portfolio totalling 31,430 sq ft, with a combined contracted rent of £0.50 million pa; in line with September 2013 valuation rental values. Lettings included Buildings 1, 3 & 4 at Switchback Office Park, Maidenhead on completion of refurbishment works and the expansion of a tenant into an additional unit at the McKay Trading Estate, Poyle.

At lease break and expiry, 50% of tenants remained in occupation securing contracted rents of £0.63 million pa. The combined rental value of expired leases was £0.48 million, of which 66 Wilson Street, EC2 accounted for £0.28 million. This property, along with office space at Maidenhead and Bracknell is being refurbished.

Portfolio occupancy (by rental value) remained unchanged at 89% and there is encouraging interest in a number of properties.

The Group has maintained a sound financial position with £155.0 million of loan facilities secured until at least 2016. Drawn debt increased to £107.0 million (30<sup>th</sup> September 2013: £100.5 million) due primarily to the Woking acquisition. The Group has cash and cash equivalents of £0.3 million. Interest rate hedging facilities totalling £105.0 million remain in place.

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