McKAY SECURITIES PLC ("the Group")
TRADING UPDATE
1st October 2014 to 24th February 2015

ENCOURAGING PROGRESS MAINTAINED

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.

Commenting on trading, Simon Perkins, Managing Director said:

"Encouraging momentum has been maintained over the period in our portfolio and markets. Our portfolio management initiatives have retained high occupancy levels, despite planned vacancies that will facilitate our development proposals. Lease renewals and lettings have been 8.5% and 12.7% respectively ahead of rental value assumptions at the last portfolio valuation in September 2014 (ERV).

Recently completed portfolio refurbishments have attracted good interest. Our committed pipeline of London and South East office development and refurbishment projects remains on programme for delivery over the next three years into under supplied markets, in line with the growth strategy set out at our Capital Raising last February."

Market Review

The positive market trends reported in November 2014 have continued. Stable occupier demand and a constrained supply of new and Grade A floor space continues to underpin the Group's committed refurbishment and development programme and the active management of its recently expanded portfolio. Increasing office rental values in central London are having a positive influence on South East markets, particularly in the more undersupplied centres to the south and west of London. Rental growth in these locations is being supported by the cyclical and, in some cases, historic rental highs achieved by recently completed schemes.

Investor sentiment remains positive across the Group's markets. After a period of significant yield compression in prior periods, this weight of money is likely to support further gains in value, particularly for quality product. This is anticipated to be at a slower pace until there is more widespread evidence of growth in net rental values.

Portfolio Review

Having secured £86.71 million of equity in the February 2014 Capital Raising, the Group made rapid progress with acquisitions, refurbishments and developments. Seven acquisitions were made prior to the period under review at a cost of £62.50 million. With the inclusion of these properties, the Interim portfolio valuation (30th September 2014) totalled £321.70 million, with a portfolio ERV of £24.68 million pa, and total contracted rents of £20.25 million pa. It has become more challenging to acquire attractively priced assets since mid 2014, due to increasing competition from investors attracted by rental growth prospects and priced out of London. No acquisitions have been made over the period, but a number of opportunities continue to be appraised. Disposals, particularly of smaller assets are also under review.

Refurbishment projects at 66 Wilson Street, EC2, 329 Bracknell and Switchback Office Park, Maidenhead, were completed at the beginning of the period and letting programmes implemented. Progress with the previously documented pre-let at Newbury has been delayed by the planning process.

66 Wilson Street was let as a whole in January 2015 on a 10 year lease (without breaks) at a contracted rent of £0.55 million pa. This was a positive result, being 17.3% ahead of September 2014 ERV and 32.2% ahead of assumptions on acquisition in December 2012. At Bracknell and Maidenhead the completed schemes have been well received by the market and a recent pick up in enquiry levels has been seen, particularly at Bracknell. Contracted rents at these two schemes now total £0.65 million pa (ERV: £1.10 million pa).

Planning approval is expected in Newbury shortly to allow conversion of the current building from office to medical use. On completion of the works, two local G.P. practices will take occupation on a 25 year lease (without breaks) at a rental of £0.26 million pa. (ERV: £0.12 million pa)

With the inclusion of the letting of 66 Wilson Street, 13 open market lettings were completed over the period across the portfolio. The combined contracted rent of £1.09 million pa was 12.7% ahead of ERV.

16 out of 25 tenants were retained at lease break and lease expiry, maintaining a high retention rate of 64.0%. Contracted rental income from lease renewals increased by £0.22 million pa to £1.40 million pa; 8.5% ahead of ERV. Contributing to this was a 47.5% increase in rent from the advertising tower at The Mille, Brentford, acquired in April 2014. The lease was extended by 5 years to 2030 (without breaks) and the rent increased from £0.30 million pa to £0.45 million pa (ERV: £0.40 million pa) with annual RPI increases.

Lease expiries accounted for £1.00 million pa of contracted rent, of which £0.62 million pa was due to the securing of vacant possession at 30-32 Lombard Street, EC3, ahead of development.

Total portfolio occupancy (by ERV) stands at 85.8% (85.2% at 30th September 2014), including development and refurbishment projects at current unimproved rental values.

Committed Development Projects

The Capital Raising has enabled the Group to commit to well placed, speculative refurbishment and development projects in Redhill, Reading and the City of London. These three office schemes have the potential to add net income of circa £4.75 million pa, increasing the portfolio ERV by 19.3%.

Redhill
Speculative works commenced on site in January 2015 for a 48,050 sq ft Grade A office building, with completion due in mid 2016.

Reading
Planning consent for the comprehensive refurbishment of 9 Greyfriars Road (38,200 sq ft) is expected this month. This will allow delivery of the upgraded office building in early 2016. The property, located in the heart of Reading and close to the railway station, is set to benefit from the imminent commencement of the large scale Station Hill regeneration project and the opening of Crossrail in 2018.

Lombard Street, EC3
In the City of London, vacant possession of 30-32 Lombard Street was secured on programme in January 2015, and enabling works are due to commence at the end of March 2015. On this basis, completion of this top quality 58,000 sq ft office scheme is programmed for mid 2018.

Finance

Drawn debt increased by £4.00 million over the period to £97.50 million, resulting in an LTV of 30.3% based on the last valuation (30th September 2014). With current debt facilities totalling £155.00 million, headroom of £57.50 million remains available. Planned expenditure on development properties accounts for the majority of this. The earliest debt facility expiry is February 2016, and alternative sources of funding, and the possibility of securing additional headroom, remain under regular review.

Interest rate hedging instruments with a notional value of £80.00 million remain in place, leaving the Group 82.1% hedged. The fair value deficit of these instruments continues to fluctuate, but at present is higher than reported at 30th September 2014.

Board Changes

On 21st January 2015 the appointment of Nick Shepherd as a Non-Executive Director and as a member of the Audit, Nomination and Remuneration Committees was announced.

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