



**McKAY SECURITIES PLC (“the Group”)
TRADING UPDATE
1st April 2015 to 15th July 2015**

MCKAY ACCELERATES PORTFOLIO VALUE CREATION

This Trading Update is issued by McKay Securities PLC, the only Real Estate Investment Trust specialising entirely in South East and London office and industrial markets, ahead of its 69th Annual General Meeting to be held at 12 noon today.

Market Review

Market conditions across the South East and London remain positive. The shortage in supply of good quality business space reported on 27th May 2015 in the Year End results, combined with stable levels of occupier demand, continue to generate growth in rental values. An increasing number of occupiers are prepared to look outside central London for better value, and higher rental levels are being achieved by new/comprehensively refurbished office buildings within the M4 and M25 corridors.

Capital values have also continued to increase this year across the Group’s markets, albeit at a slower pace. Future increases are likely to be more reliant on rental growth and portfolio management than further yield compression.

Portfolio Review

The investment and allocation of funds following the Capital Raising in February 2014 and a comprehensive programme of asset management initiatives leaves the Group well placed to benefit from these favourable market conditions. The active development programme and other portfolio opportunities have the potential to increase contracted rental income from £20.5 million pa at the Year End to circa £30.0 million pa, further enhancing earnings and shareholders’ funds.

Construction work remains on programme for completion of speculative office schemes in Reading (38,000 sqft) and Redhill (48,000 sqft) next year. At 30 Lombard Street, EC3 strip out works have completed and negotiations with the selected contractor and other enabling discussions are due to complete shortly. This will enable works to commence on a speculative basis to deliver this high quality 58,000 sqft office scheme by mid 2018. These three schemes have a combined ERV (as at 31st March 2015) of £5.6 million pa.

Within the portfolio, fifteen open market lettings were completed over the period with a combined contracted rent of £0.9 million pa. This was 7.8% ahead of ERV. These lettings include:

- £0.3 million pa secured at 1 Castle Lane SW1, where proactive management of the building maintained full occupation despite a number of lease expiries, without rental voids. Rents achieved were at ERV and 54.9% ahead of previous levels.
- The letting of the first floor of Building 4, Switchback Office Park, Maidenhead which secured a rent of £0.1 million pa on a 10 year unbroken lease. The rent of £23.50 psf was 38.2% ahead of ERV (£17.00 psf).
- Three lettings at 329 Bracknell totalling £0.1 million pa, in line with ERV (£18.50 psf). The building is now 57% let (by floor area) compared with 35% at the Year End, with encouraging interest in a further 20% at rents ahead of ERV.

At lease break and expiry, a high tenant retention rate of 77.8% was maintained, retaining income of £0.7 million pa, 0.7% ahead of previous passing rents.

As a result of these lettings and lease events, the total occupancy level of the portfolio (by rental value), excluding development projects, increased to 93.5%, compared with 91.8% at the Year End.

The portfolio value at the Year End totalled £352.8 million. Since then, Brunel Way, Theale (warehouse: 96,850sqft) was acquired in April 2015 for £10.7 million. The next portfolio valuation will be at 30th September 2015 and included in Interim Results, to be announced in November 2015.

Drawn debt increased by £30.5 million over the period to £122.0 million predominantly due to acquisitions and development expenditure. Headroom of £53.0 million remains available to total facilities of £175.0 million (secured with the refinancing of loan facilities in May 2015) to fund development projects and further acquisitions.

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Dated: 16th July 2015

For further information please contact:

McKay Securities PLC
Simon Perkins, Managing Director
Giles Salmon, Finance Director
0118 9520333

Broker Profile
Simon Courtenay
020 7488 3244