McKay

Interim Management Statement

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McKAY SECURITIES PLC

PRESS RELEASE

Interim Management Statement

This Interim Management Statement relates to the period since publication of the Group's half year results on 27th November 2008 ahead of results for the year to 31st March 2009, which will be released in early June 2009.

Key Points

- Resilient payment of quarterly rents from the Group's property portfolio.
- Disposal of Flat 24, Parkside, London, W1 at £2.45 million, ahead of book value.
- Planned commencement of small scale refurbishments increase total portfolio void to 9% (30th September - 6%).
- Management focus on maximising income and minimising capital expenditure and costs.

Market Update

As anticipated, the start of 2009 has seen tough market conditions. The final quarter of 2008 saw property values measured by the IPD UK Monthly Index fall by 15%, contributing to a fall of 27% in capital values over the calendar year as a whole, and 36% in the 18 months since values peaked in the summer of 2007. This compares with a 27% fall over 43 months in the downturn of the early 1990's.

Headline rental values in the office and industrial sectors of the western corridor, which account for 60% of the Group's portfolio, have shown little movement over the period, although letting incentives have increased. Despite the onset of recession, the office sector in this market (which accounts for 45% of the portfolio) achieved the highest level of take up in 2008 since 2001, and with the cessation of speculative development, the void rate of Grade A product of 6% is unlikely to increase significantly. The impact of deteriorating economic conditions has however become more apparent with lower enquiry levels and an increasingly cost conscious occupier base.

Continued deterioration in economic conditions will put increased pressure on occupiers and rental values generally, although those established centres with limited supply will prove more robust. Capital values are unlikely to settle until there is more certainty in respect of occupier markets and an increase in the number of debt based investors able to take advantage of low interest rates, although experienced purchasers with equity are beginning to re-enter the market.

The independent valuation of the Group's portfolio as at 30th September 2008 totalled £300.02 million. The next valuation will be at the end of the financial year (31st March 2009).

Portfolio Review

Rental income from the Group's portfolio has proved resilient, with 95% of all quarterly rents due on 25th December 2008 now paid. 84% was paid within seven days of the due date which compared favourably with 80% for the same quarter in 2007. Of the 5% outstanding, 2% relates to Units 1-3 McKay Trading Estate, Poyle where the financial difficulties of the tenant reported at the interim stage has resulted in administration, 2% relates to other tenants in difficulty and the remaining 1% is due from tenants paying monthly.

The portfolio void has increased by 40,500 sq ft to 123,750 sq ft, representing a void by area of 9% of the total portfolio (September 2008 - 6%). Contributing to this increase were lease expiries at The Switchback, Maidenhead, 1 Castle Lane, SW1 and Portsoken House, EC3, where planned refurbishment works are underway. The Group has no major development projects either completed and vacant, or under construction.

Twelve lettings and lease renewals have been completed at or in excess of September 2008 rental values, with a combined contracted rental value of £368,500 per annum. Income has also been improved at 100 Bothwell Street, Glasgow, where settlement of a rent review has added £58,000 per annum.

The sale of the long leasehold interest of Flat 24, Parkside, London, W1 completed in December 2008 at a price of £2.45 million, ahead of book value of £2.1 million. Rental income from this property was £70,500 per annum.

Financial Review

Net debt on 1st February 2009 was £134.44 million (30th September 2008 - £139.92 million), representing 83.5% (30th September 87.0%) of shareholders' funds, and a loan to value ratio (as at 30th September 2008) of 44.8%. The Group has total banking facilities of £185.00 million with an average weighted maturity of 6.8 years. Committed outstanding capital expenditure is less than £4.00 million. On this basis, there remains a reasonable margin to the Group's banking covenants, although measures are kept under regular review to protect this position.

The Group's weighted average cost of debt, taking into account hedging facilities of £155.00 million (September 2008 - £140.00 million), remains in the region of 5%. With recent reductions in interest rates, it is anticipated that the fair value of these instruments will be lower when incorporated in the year end results.

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12th February 2009

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