McKay

Interim Management Statement

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INTERIM MANAGEMENT STATEMENT

This Interim Management Statement is issued by McKay Securities PLC (the 'Group'), the Real Estate Investment Trust (REIT) specialising in South East and Central London office and industrial property, in respect of the period from 30th September 2010.

Over the period, the Group has maintained its strategy of seeking to maximise income and value from existing portfolio properties. It has kept under review the potential to recycle capital into new assets with more potential to generate value from active asset management, refurbishment or redevelopment. The Group's beneficial banking facilities have been maintained and interest rate hedging instruments have now been restructured to reduce the Group's over-hedged position.

Market Review

The Group's portfolio splits into three main sectors: South East offices 42%, South East industrial 21%, London offices 27% (% by value as at 30th September 2010 valuation).

In the South East office and industrial markets, investment values for prime assets have remained steady, with an increase in transaction volumes in 2010 compared with 2009. In these markets there has been an increase in the number of situations where the economic downturn is putting pressure on more highly geared borrowers and other property owners. As the year progresses, values for secondary properties with shorter leases requiring refurbishment or redevelopment are likely to continue to adjust to levels which make acquisition opportunities more attractive.

The office occupier market in the western corridor has continued to gain momentum after a poor 2009. In the Thames Valley, 2010 saw an 82% increase in take up of space compared with 2009, at a level 10% above the 10 year average (source: Strutt & Parker). Contributing to this were a number of large letting transactions in excess of 100,000 sq ft in late 2010 where occupiers, who had been in the market for some time, took advantage of the attractive terms on offer. Demand levels have been maintained and rental values have generally stabilised for Grade A stock. Occupiers remain cost conscious, and a two tier market is emerging with rental values for poorer quality buildings remaining under pressure. However, as a result of the prospect of rental growth in undersupplied centres, speculative developments are now being promoted in the market.

In London, investment values for office properties and prime properties in particular have continued to increase. Strong occupier demand has maintained upward pressure on rental values for Grade A stock due to a shortage of supply. Further rental growth is expected in 2011/2012.

Portfolio Review

Over the period four lease renewals and one open market letting were completed totalling 13,350 sq ft at a contracted rent of

£396,050pa. All transactions were at, or in excess of, estimated rental value. Four leases expired totalling 18,516 sq ft with a contracted rent of £211,000. There were no break clauses during the period. The Group void increased marginally from 10.3% to 11.2%.   60% of the portfolio void is contained within five properties which are all being marketed actively and are presented in good condition in established market locations.

The Group collected in excess of 90% of contracted rents at the December 2010 quarter day, and tenants paying rent on a monthly basis represent less than 5% of rents demanded.

Detailed planning consent was renewed for the redevelopment of the Group's existing holding in the heart of the City of London at 30/32 Lombard Street, EC3. The permitted scheme will double the size of the existing 30,000 sq ft building with a high quality redevelopment in a first class location. The existing building is fully income producing with leases enabling vacant possession to be secured in December 2012. It is therefore well placed to benefit from the continued improvement in market conditions in the City.

The refurbishment of Eastgate House, Fleet (14,000 sq ft) is progressing well. The works include an upgrade of the office floor space and common parts. When marketing starts in the Spring this will be one of the few Grade A buildings of its size available on the southern section of the M3 corridor.

No acquisitions or disposals were made during the period.

Financial Review

The Group retains low margin loan facilities totalling £185.00 million. After the expiry of £30.00 million in March 2011, the remaining facilities are secured for at least five years. Net debt as at 9th February 2011 was £97.70 million (30th September 2010 - £90.21 million).

A restructuring of the Group's financial hedging instruments has now been completed to reduce the notional sum by £50.00 million to £105.00 million at a cost of £5.93 million. This realigns the interest rate protection with the reduced level of Group debt following the recent downturn in property values.

As a result of the restructuring, any further downward movements in the market value of the remaining instruments will have a reduced impact on the balance sheet. The restructuring was implemented ahead of instruments reverting to higher swap levels from Spring 2011 onwards. Therefore, the anticipated increase in finance cost and the corresponding impact on earnings and dividend cover in future periods has been significantly reduced.

Favourable movements in long term swap rates have had a positive effect on NAV. Following completion of the restructuring, the negative mark to market value of the retained instruments of £15.94 million compares with £36.67 million as at 30th September 2010. After taking into account the cost of restructuring this equates to an increase of 32 pence per share.

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