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GPE acquires stake from City JV Partner Starwood Capital

Great Portland Estates plc (“GPE”) and Starwood Capital Group, a leading global private investment firm, announced today that they have exchanged contracts whereby GPE has agreed to acquire Starwood Capital’s interest, through a controlled affiliate, in their 50:50 joint venture, The Great Star Partnership (“GSP”), for £61.4 million. On completion, GPE will redeem 100% of the £73.1 million in outstanding debt secured against the JV’s properties. The transaction equates to a property price of £190.6 million, broadly in line with the September 2014 valuation.

The acquisition gives GPE full ownership of the leasehold interests in City Tower, 40 Basinghall Street, EC2 and the adjacent City Place House, 55 Basinghall Street, EC2 which together occupy a 1.3-acre, core City site. The buildings provide 313,000 sq. ft. of flexible office space and are let at a contracted rent roll, after head rent, of £10.2 million which reflects £44.00 per sq. ft.. With 55,000 sq. ft. of vacant or imminently vacant space and a WAULT of 3.7 years across the buildings’ 32 tenants, there are numerous opportunities to enhance income and add value. As a result, GPE expects the transaction to be NAV enhancing in the near term.

The acquisition price equates to £608 per sq. ft. and a yield of 5.3% on contracted rent roll, or 4.8% after deducting current void costs on the vacant space. The running yield can be quickly enhanced to 6.1% if the vacant accommodation is leased in its existing condition, preserving the opportunity for a larger scale refurbishment of City Place House in the medium term, in an area set to benefit from the introduction of Crossrail in 2018.

City Place House is a 179,000 sq. ft., nine-story building held on a 103-year unexpired leasehold interest from the City Corporation at an 8.25% gearing. The building is multi-let to six tenants with an average passing rent of £42.70 sq. ft.. Approximately 33,000 sq. ft. is expected to become vacant imminently, providing multiple opportunities for refurbishment.

City Tower is a 134,000 sq. ft., 20-story office building held on a 95-year unexpired leasehold interest from the City Corporation at a 7.5% gearing. GSP carried out an extensive refurbishment of 64% of the office space in the building, leasing the entirety at rents ranging from £39.50 to £60.00 per sq. ft. This programme continues with a further 12,500 sq. ft. currently under refurbishment.

Toby Courtauld, GPE Chief Executive said, “We are delighted to have acquired Starwood Capital’s interest in the GSP, giving us full ownership of City Tower and City Place House, after a successful period of joint venture. We look forward to unlocking further value from both these core City assets, which continue to provide numerous opportunities for us to drive returns.”

“We are pleased to have reached this agreement after having successfully completed, through the joint venture, the refurbishment and letting of 64% of City Tower, which included the creation of the Skylight podium office area,” said Jeff Dishner, Senior Managing Director, Global Head of Real Estate Acquisitions at Starwood Capital. “Now is the right time for our Firm to exit this investment and provide a valuable return to our investors, while leaving this asset in GPE’s very capable and talented hands to oversee the next stage of its growth and development.”

About Starwood Capital

Starwood Capital Group is a private investment firm with a core focus on global real estate. Headquartered in Greenwich, CT, the Firm maintains 12 offices in six countries around the world. Starwood Capital Group has raised over \$31 billion of equity capital since its inception in 1991, and currently manages over \$42 billion in assets. The Firm has invested in virtually every class of real estate on a global basis, opportunistically shifting geographies and changing positions in the capital stack as risk-reward dynamics evolve. For more than two decades, Starwood Capital Group and its affiliates have successfully executed an investment strategy that involves building enterprises around real estate portfolios in both the private and public markets. Additional information can be found at starwoodcapital.com.

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