



20 May 2010

## Formation of joint venture and acquisition of City properties

Great Portland Estates plc (“GPE”) announces the creation of a new 50:50 joint venture with an affiliate of Starwood Capital Group Global, L.P. (to be called “The Great Star Partnership” or “GSP”) to own City Tower, 40 Basinghall Street, EC2, valued at £35 million. GPE has simultaneously acquired a neighbouring building, City Place House, 55 Basinghall Street, EC2 for £94 million for cash and intends to contribute this asset into GSP.

City Tower is a 20 storey, 133,000 sq ft office building in a prime City location, immediately south of London Wall, held on a 100 year unexpired leasehold interest from the City Corporation. GPE has signed an agreement with Starwood Capital to acquire a 50% share in the limited partnership which owns City Tower, for a cash consideration representing a valuation of £263 per sq ft. and generating a net initial yield of 8.3%. The building is multi-let to over 30 tenants with an average passing rent of £31 per sq ft., and with 16% by area vacant, the yield would rise to 10% if this space was let. The current net rental income from the property is approximately £3.1 million per annum. The partners of GSP believe there is significant opportunity to increase the rental income of the property further following targeted refurbishment and active asset management.

Separately, GPE has acquired 100% of City Place House from an affiliate of AEW Europe. It is a 177,000 sq ft grade A building situated directly west of City Tower, held on a head lease from the City Corporation with an unexpired term of 108 years. Based on a purchase price of £94 million, the net initial yield is 7.2%, reflecting a capital value of £531 per sq ft. This prime office building is let to seven tenants, off an average passing rent of £47 per sq ft with a weighted average unexpired lease term of 6.7 years. The current net rental income from the property is approximately £7.1 million per annum. Our intention is to refurbish the common parts and floors as appropriate, repositioning the building into a potential shortage of grade A space in the City from 2011.

Taken together, these two buildings cover a 1.3 acre prime site, providing 310,000 sq ft of flexible office space. GPE will asset manage the JV and will pursue a wide variety of value enhancing options, ranging from short term asset management to longer term, comprehensive redevelopment. It is likely that non recourse debt finance will be arranged for the enlarged GSP joint venture.

Toby Courtauld, GPE Chief Executive said “We are delighted to have joined forces with Starwood Capital on what promises to be another exciting investment opportunity.

We have acquired assets in a first class City pitch which provide numerous opportunities for us to drive returns through lease re-structuring, refurbishment and in the longer term, a possible wholesale redevelopment. We look forward to working with Starwood to unlock the potential in these attractive properties.”

Jeff Dishner, Senior Managing Director for Starwood Capital, added “We are pleased to be partnering with GPE and have tremendous respect for the quality and depth of their team. We welcome the active management opportunities inherent in the assets and the prospect of combining our abilities to enhance value for the venture and our respective investors.”

**Great Portland Estates**

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