Press Release

13 February 2020

Great Portland Estates Trading Update

Great Portland Estates plc ("GPE") today publishes its trading update for the quarter to 31 December 2019.

Toby Courtauld, Chief Executive, said:

"I am pleased to report on another productive quarter, combining healthy leasing ahead of ERV, good progress at our six committed and near-term developments and continued capital discipline, profitably recycling out of mature assets and returning surplus equity to shareholders as we completed our share buyback programme. The final quarter has started well; we have issued an innovative ESG-linked revolving credit facility and demand for our brand of high quality, sustainable space remains robust with £9.2 million of lettings currently under offer at a 6.9% premium to March 2019 ERVs.

The clear outcome of the General Election is encouraging increased transaction activity in our investment markets and, whilst further political and macro-economic turbulence is possible, GPE is in great shape: We are innovating across our portfolio, including the continued rollout of our flexible space offering; our exceptional development pipeline provides us with nearly 1.4 million sq ft of value creating opportunities; and with a talented team, supported by our collaborative culture, deep market knowledge and financial strength, we are well positioned to maximise the opportunity we have to generate long-term value across our business".

Continued leasing successes ahead of March 2019 ERV

- Twelve new lettings (48,900 sq ft) generating annual rent of £3.7 million (our share: £3.5 million); market lettings 1.4% ahead of March 2019 ERV
- Flexible space now c.11% of office portfolio at 35% > ERV[1] and appraising further c.149,000 sq ft
- Seven lettings under offer totalling £9.2 million p.a. of rent (our share: £9.2 million), market lettings 6.9% ahead of March 2019 ERV
- Vacancy rate remains low at 2.4%; average office rent only £55.10; reversionary potential 9.2% (£9.5 million)
- 99.3% of rent collected within seven working days; only two occupier delinquencies (0.2% of rent roll)

Committed schemes 50% pre-let or under offer; total programme covers 54%[2] of existing portfolio

- Three committed schemes (414,900 sq ft), with two completing in 2020; 50% pre-let or under offer; all located near to Crossrail stations, 18.7% forecast profit on cost, capital expenditure to come of £76.0 million
- Three near-term uncommitted schemes (818,900 sq ft), expected capital expenditure of c.£600 million and expected ERV of c.£55 million
- Total pipeline of 10 schemes (1.4 million sq ft), all income producing, 2.8 years average lease length, 13.6% reversionary[3]

£64.5 million sale, 6.2% above book value; new PropTech VC investment

- 24/25 Britton Street, EC1 sold in January for £64.5 million, 6.2% above September 2019 book value reflecting net initial yield of 4.07% and capital value of £1,255 per sq ft, crystallising 15.7% p.a. IRR since refurbishment in 2011
- Commitment of up to £5 million to invest in Pi Labs European PropTech venture capital ('VC') fund

Strong financial position; new £450 million ESG-linked RCF aligned to ambitious sustainability targets

- LTV[2] of 15.8% (or 13.7% pro forma for 24/25 Britton Street, EC1 sale), weighted average interest rate of 2.5%; cash and undrawn committed facilities of £368 million
- £200 million share buyback completed, 27.8 million shares purchased at average price of £7.20
- New innovative £450 million ESG-linked revolving credit facility ('RCF'), headline margin of 90 bp

1. Rental value of space prior to conversion, now open and trading as flexible space
2. Based on property values at 30 September 2019
3. Existing use of development pipeline at 31 December 2019

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Forward Looking Statements

This document may contain certain ‘forward-looking statements’. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes of results expressed or implied by such forward-looking statements.

Any forward-looking statements made by or on behalf of GPE speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. GPE does not undertake to update forward-looking statements to reflect any changes in GPE’s expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Information contained in this document relating to GPE or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.

Portfolio management

Occupier interest across our limited available space remained robust as we delivered another healthy quarter of leasing performance, including:

- twelve new leases and renewals signed generating annual rent of £3.7 million (our share: £3.5 million), with market lettings 1.4% ahead of March 2019 ERV;
- one rent review was settled securing £0.1 million of annual rent (our share: £0.1 million), 3.0% ahead of ERV;
- total space covered by new lettings, reviews and renewals was 50,100 sq ft; and
- our leasing successes have helped maintained a low vacancy rate of 2.4% at 31 December 2019 (2.3% at 30 September 2019).

Leasing Transactions	**Three months ended**		
	31 Dec 2019	**30 Sep 2019**	**31 Dec 2018**
New leases and renewals completed			
Number	12	17	16
GPE share of rent p.a.	£3.5 million	£6.0 million	£4.1 million
Area (sq ft)	48,900	178,400	51,400
Rent per sq ft	£53	£78	£75
Rent reviews settled			
Number	1	16	5
GPE share of rent p.a.	£0.1 million	£8.7 million	£2.0 million
Area (sq ft)	1,200	107,600	123,800
Rent per sq ft	£94	£87	£28

Note: Includes joint ventures at our share

Notable portfolio management transactions during the quarter included:

- at City Place House, EC1, together with our partner Knotel, we completed lettings totalling £1.5 million, bringing our short term lettings at the building to £1.9 million in the quarter, securing income ahead of the proposed redevelopment of the building in 2022;
- at City Tower, EC1 we completed a further 2,400 sq ft flex space letting for £0.2 million, 5.7% ahead of ERV; and
- at 50 Finsbury Square, EC2 we agreed a surrender with our largest occupier Bloomberg L.P. ahead of their forthcoming lease expiry in June 2020. Bloomberg L.P. paid £11.2 million, including dilapidations and a surrender premium. We are to obtain full vacant possession later this year to allow for a major refurbishment of the building.

Since 31 December 2019, our leasing momentum has continued:

- we have completed three new leases generating £0.7 million (our share: £0.7 million) of annual rent (10,300 sq ft), with market lettings 19.5% above March 2019 ERVs; and
- a further 108,600 sq ft of space is currently under offer which would deliver approximately £9.2 million p.a. in rent (our share: £9.2 million), with market lettings 6.9% above March 2019 ERVs and 4.4% above September 2019 ERVs.

Our quarterly cash collection performance has continued to be very strong, with 99.3% of rent secured within seven working days of the December quarter day. Two of our smaller occupiers went into administration during the quarter (September 2019: one), representing only 0.2% of our rent roll; however, we remain vigilant and regularly monitor the financial position of all our occupiers.

Investment management

Given the continued strength of the investment market, attractive opportunities to buy were limited and we made no property acquisitions in the quarter. We did however take advantage of these supportive market conditions to make one sale.

In January 2020, we sold 24/25 Britton Street, EC1 to an overseas investor for a headline sale price of £64.50 million, equating to £64.06 million after deduction of vendor top ups. The headline price reflects a net initial yield of 4.07% and a capital value of £1,255 per sq ft. The premium to the September 2019 valuation was 6.2% and crystallised an ungeared IRR of 15.7% p.a. since the office element of the building was comprehensively refurbished by GPE in 2011. This provided 49,900 sq ft of high quality accommodation arranged over two lower ground, ground and three upper floors. The office space is let to Kurt Geiger where we recently re-geared the lease to extend the term to 2035. In addition, there are two retail units fronting Britton Street (1,500 sq ft). The total contracted rental income is £2,806,000 per annum inclusive of vendor top ups, equating to £55 per sq ft overall (reflecting a minimum uplift at review of £65.00 per sq ft on the best office space). At the date of sale, the current weighted unexpired lease term was approximately 14.8 years to the earlier of expiries or breaks.

In January 2020, we made a commitment of up to £5 million to invest in Pi Labs European PropTech venture capital fund. Launched in 2014, Pi Labs is Europe's longest standing PropTech VC and this third fund has a primary focus to invest in early stage PropTech start-ups across Europe and the UK that use technology solutions to enhance any stage of the real estate value chain. Key areas of focus for the fund include sustainability, future of work, future of retail, commercial real estate technologies, construction technology and smart cities.

Development management

Three committed schemes

At Oxford House, 76 Oxford Street, W1, construction of the new building is progressing well with the core now complete. The building will deliver 81,200 sq ft of new offices and 37,900 sq ft of retail space directly opposite the Dean Street entrance to the Tottenham Court Road Crossrail station and completion is targeted for Q2 2021, with an expected profit on cost of 17.0%. Occupier interest for the office space has been strong, given the quality of the building and the continued lack of new-build office supply in the core of the West End. As a result, the entirety of the office space is under offer with negotiation of detailed terms ongoing. We will commence shortly the marketing of the retail units and, despite both the challenging UK retail environment and delays to the opening of Crossrail, early signs of occupier interest are encouraging.

At Hanover Square, W1, construction is advancing well and we are on track to hand over the first retail unit to Canali next month. The scheme will deliver 221,100 sq ft of new space, comprising 167,100 sq ft of offices, 41,800 sq ft of retail and restaurant space and 12,200 sq ft of residential apartments. Following the pre-let of 111,400 sq ft of offices in 18 Hanover Square to KKR and Glencore, interest in the remaining 55,700 sq ft of office space across the scheme continues to be strong. We remain positive on the letting prospects for the remaining six retail units given their location on one of the world's premier retail streets, their relative pricing and unit sizing. In total, the scheme is now 53% let and, when complete in Q3 2020, it is expected to deliver a profit on cost of 22.0%.

At The Hickman, E1, the building topped out in October 2019 and we expect to deliver the new 74,700 sq ft Grade A office and retail building in May 2020. Occupier interest in the building is encouraging and we are currently under offer with a partner to work with us to deliver a co-working offer for the basement, ground and first floors (together 17,300 sq ft). We are anticipating a profit on cost of 10.1% with average office rents across the building of around £51.55 per sq ft.

At 31 December 2019, the three committed development properties required £76.0 million (our share) of capital expenditure to complete.

Substantial development pipeline

Beyond our three committed schemes, we have a substantial and flexible pipeline of ten uncommitted schemes, including three schemes in our near-term pipeline.

Three near-term schemes

At 50 Finsbury Square, EC2, we have submitted a planning application for a major refurbishment and have also completed the surrender agreement with Bloomberg L.P. ahead of vacant possession in the summer. The 126,400 sq ft major refurbishment will see the office floor plates extended within the existing frame of the building, a large reception with a concierge as well as an amenity offer and the addition of a roof pavilion and terrace.

Close by at City Place House, EC2, located 200m from the Moorgate Crossrail station, we are working on plans to maximise the potential of the site by significantly increasing the size of the building to 320,000 sq ft, up from 176,600 sq ft today. Initial discussions with the City of London have been encouraging and the project has a proposed start date of 2022.

At New City Court, SE1 in the London Bridge Quarter, we have submitted a planning application to materially increase the size of the existing 98,000 sq ft building to 372,500 sq ft and we expect a determination later this year.

Subject to planning, these three schemes could together deliver 818,900 sq ft of grade A space, with expected capital expenditure of c.£600 million and an expected ERV of c.£55 million.

Total programme of 1.8 million sq ft

Beyond these three near-term schemes, we have a further seven schemes in the medium-term pipeline, with our potential development programme totalling 1.3 million sq ft today, with the potential to increase this to more than 1.8 million sq ft post development. These schemes cover 54% of GPE's existing portfolio and will provide the bedrock of our development for the coming decade.

Share buyback programme completed

In November 2019, we completed our £200 million return of surplus equity to shareholders through our twelve month on market share buyback programme. In total, we purchased and cancelled 27.8 million shares at an average price of £7.20 per share (or £7.25 per share, £201.5 million including costs).

Strong financial position, new ESG-linked RCF aligned to ambitious sustainability targets and extending maturities

In January 2020, we signed a new £450 million ESG-linked revolving credit facility ('RCF') by way of an amendment and extension of our previous £450 million facility, with a group of five existing relationship banks. The new facility has an initial five-year term which may be extended to a maximum of seven years at GPE's request, subject to bank consent. This innovative structure is the first ESG-linked RCF issued by a UK REIT, and from May 2021 the headline margin of 90 basis points can be adjusted (by up to 2.5 basis points in either direction) depending on our performance against three ESG related KPIs. All margin adjustments will be given by GPE to registered charities focused on environmental initiatives.

At 31 December 2019, Group consolidated net debt was £403.1 million, up from £322.7 million at 30 September 2019. The increase was largely due to £40 million incurred to complete the Group's share buyback as well as on-going development capital expenditure across the Group. Group gearing increased to 18.2% at 31 December 2019 from 14.7% at 30 September 2019. Including the non-recourse debt in the joint ventures, total net debt was £418.0 million (30 September 2019: £351.8 million) equivalent to a loan to property value of 15.8% (30 September 2019: 13.3%), although this falls to 13.7% pro forma for the sale of 24/25 Britton Street, EC1. At 31 December 2019, the Group, including our share of joint ventures, had cash and undrawn committed credit facilities of £368 million.

Our weighted average interest rate was 2.5% at the quarter end, down from 2.6% at 30 September 2019 as we have drawn further on our revolving credit facility. At 31 December 2019, 75% of the Group's total drawn debt was fixed or hedged. Our weighted average drawn debt maturity was 5.9 years at 31 December 2019 (30 September 2019: 6.4 years).

	31 December 2019	**30 September 2019**
GPE net debt	£403.1m	£322.7m
GPE gearing	18.2%[1]	14.7%
Total net debt including JVs	£418.0m	£351.8m
LTV	15.8%[2] / 13.7%[3]	13.3%

1. *Based on net asset value at 30 September 2019*
2. *Based on property values at 30 September 2019*
3. *Based on property values at 30 September 2019 adjusted for the sale of 24/25 Britton Street, EC1*

Investor and analyst event

We will be hosting an event for investors and analysts today at Kent House, 14/17 Market Place, W1. GPE will not be disclosing any new material financial information at the event and a presentation will go on our website later today.