DERWENT
LONDON

10 August 2021

Derwent London plc (“Derwent London” / “the Group”)

ACQUISITION OF TWO WEST END PROPERTIES AND NEW JV WITH LAZARI INVESTMENTS

Derwent London is pleased to announce three off-market West End transactions with Lazari Investments.

We have exchanged contracts to acquire two properties in London’s Knowledge Quarter[1], totalling 182,100 sq ft for £214.6m inclusive of costs. The combined rent is £5.3m p.a., or c.£30 per sq ft, reflecting a net initial yield of 2.5%. The two acquisitions offer considerable opportunities for asset management and longer-term development opportunities.

In addition, we have signed a detailed memorandum of understanding with Lazari Investments to establish a new 50:50 joint venture which is expected to acquire three properties already owned by them in Baker Street W1 totalling 122,200 sq ft. Derwent London’s initial consideration for the joint venture will be £64.4m inclusive of costs and our share of passing rent will initially be £2.6m. The joint venture adds an exciting development opportunity opposite our 19-35 Baker Street project due to start later in 2021.

West End Properties

The largest property being acquired is 250 Euston Road NW1 which totals 165,900 sq ft and sits on a 1.6 acre site[2]. This freehold office building is let in its entirety to University College London Hospital (‘UCLH’) on a lease expiring in 2039. The passing rent is £4.7m or just £28 per sq ft, which is subject to 2.5% fixed annual increases compounded every five years. The next uplift is due in April 2024 when there is also a tenant break with breaks every 5 years thereafter. In the longer term, there is an opportunity to create a larger scheme on this potential Life Science site. The total consideration is £189.9m inclusive of costs, and the initial yield is 2.5% reflecting the low passing rent.

The second property acquisition is 171-174 Tottenham Court Road W1 which lies opposite our Network Building. The purchase is a freehold office and retail building totalling 16,200 sq ft and is multi-let, producing an income of £0.6m. This property, together with adjoining UCLH and UCL interests, forms an important strategic holding in a larger block with longer term development potential. The total consideration is £24.7m inclusive of costs providing a net initial yield of 2.6%.

Baker Street Joint Venture

The new joint venture is expected to acquire three leasehold properties: 38-52, 54-60 and 66 Baker Street W1 totalling 122,200 sq ft with a passing rent of £5.2m. The leasehold interests range from 38 to 46 years. The total consideration equates to a net initial yield of 4.0%.

Together with a fourth property owned by the freeholder, The Portman Estate, these buildings form a 1.0 acre island site capable of significant redevelopment. Our preliminary studies show this could be up to c.240,000 sq ft. Subject to receiving planning on the larger scheme and a regear of the headlease, we will pay the vendor an additional £7.25m of deferred consideration. There is the potential to obtain vacant possession at the end of 2024 which gives the joint venture an opportunity to commence on site just before completion of our 19-35 Baker Street project opposite, another freehold owned by The Portman Estate.

Initial impact on Earnings and NAV

We are disclosing the following additional information as this is a Class 2 transaction.

Based on the initial rental income, we expect the combined transactions to have a c.£4m p.a. positive impact on the Group’s EPRA earnings, assuming a cost of debt of c.1.5%.

The expected current market valuation for the two property acquisitions is c.£198m, 7.8% below the gross purchase consideration, which approximates to the usual market allowance for purchasers’ costs.

The initial consideration for our share of the joint venture includes an element of hope value for future planning uplift and the regearing of headleases. The current market value of our 50% interest is estimated at c.£50m. We anticipate the valuation will rise significantly upon a successful planning and headlease regearing outcome.

The purchase consideration will be met from our existing undrawn facilities and cash.

Paul Williams, Chief Executive of Derwent London, said:
"These are exciting acquisitions in a strong market. We are further investing in central London's Knowledge Quarter with potential Life Science opportunities and extending our development pipeline. We are confident that combining our skills with our strong long-term relationships with Lazari Investments, UCLH and The Portman Estate will ensure these growing West End areas continue to benefit from the provision of best in class, high quality and sustainable business accommodation."

[1] London's Knowledge Quarter is defined as the small area around Euston Road, Kings Cross and Bloomsbury which has a very high concentration of academic, cultural, research, scientific and medical organisations.
[2] The acquisition has been made through the purchase of units in a Jersey Property Unit Trust (JPUT), the sole asset of which is the 250 Euston Road NW1 freehold. According to the unaudited annual accounts of the JPUT for the year ended 31 March 2021, the JPUT's net income for the year was £4.7m.

For further information, please contact:

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Notes to editors

Derwent London plc

Derwent London plc owns 81 buildings in a commercial real estate portfolio predominantly in central London valued at £5.4 billion as at 30 June 2021, making it the largest London-focused real estate investment trust (REIT).

Our experienced team has a long track record of creating value throughout the property cycle by regenerating our buildings via development or refurbishment, effective asset management and capital recycling.

We typically acquire central London properties off-market with low capital values and modest rents in improving locations, most of which are either in the West End or the Tech Belt. We capitalise on the unique qualities of each of our properties – taking a fresh approach to the regeneration of every building with a focus on anticipating tenant requirements and an emphasis on design.

Reflecting and supporting our long-term success, the business has a strong balance sheet with modest leverage, a robust income stream and flexible financing.

As part of our commitment to lead the industry in mitigating climate change, Derwent London has committed to becoming a net zero carbon business by 2030, publishing its pathway to achieving this goal in July 2020. In 2019 the Group became the first UK REIT to sign a Revolving Credit Facility with a 'green' tranche. At the same time, we also launched our Green Finance Framework and signed the Better Buildings Partnership's climate change commitment. The Group is a member of the 'RE100' which recognises Derwent London as an influential company, committed to 100% renewable power by purchasing renewable energy, a key step in becoming a net zero carbon business. Derwent London is one of only a few property companies worldwide to have science-based carbon targets validated by the Science Based Targets initiative (SBTi).

Landmark schemes in our 5.4 million sq ft portfolio include 80 Charlotte Street W1, Brunel Building W2, White Collar Factory EC1, Angel Building EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In January 2021, Derwent London came top of the Property Sector and 10th position overall in Management Today's Britain's Most Admired Companies awards 2020. In the year the Group has won several awards for Brunel Building with the most prominent being the BCO Best Commercial Workplace award. In 2019 the Group won EG Offices Company of the Year, the CoStar West End Deal of the Year for Brunel Building and Westminster Business Council's Best Achievement in Sustainability award. In 2013 the Company launched a voluntary Community Fund and has to date supported well over 100 community projects in the West End and the Tech Belt.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is 25 Savile Row, London, W1S 2ER.

For further information see www.derwentlondon.com or follow us on Twitter at @derwentlondon

Forward-looking statements

This document contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Derwent London does not undertake to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast.