

Andrew Reynolds

04 December 2008

Private & Confidential
FAO Zoe Bignell
Cushman & Wakefield
43/45 Portman Square
London
W1A 3BG

Reference Number: 021008

Subject to Contract

Hines



Dear Zoe,

REF: AMERICAN EMBASSY, 24-31 GROSVENOR SQUARE, LONDON W1

I would refer to our meetings and telephone conversations over the course of the last few weeks with regard to the above.

Acting jointly on behalf of a Middle Eastern company acting for substantial financial interests, Hines and Northbourne are delighted to have the opportunity to submit a proposal for the purchase of the long leasehold interest held by your client the United States Department of State in the Property.

I can confirm that either myself or Roger Brock of Northbourne will be pleased to answer any questions you may have as to the terms of the proposal and that access can be made available to a representative to discuss all matters relating to the financing of this proposal.

I look forward to hearing from you in due course.

Kind regards,

Yours sincerely,

Andrew J Reynolds

4th December 2008

CUSHMAN & WAKEFIELD LLP
43/45 Portman Square
London
W1A 3BG

Subject to Contract

FAO: ZOE BIGNELL

Dear Sirs,

AMERICAN EMBASSY, 24-31 GROSVENOR SQUARE, LONDON W1



1. INTRODUCTION

Set out below are the terms of the proposal to acquire the existing Long Leasehold Interest (the Existing Lease) in the Property known as The American Embassy, 24-31 Grosvenor Square, London W1 (The Property).

In formulating this proposal on behalf of the Purchaser, Hines have had the benefit of the following:

1. Property inspection;
2. The Cushman and Wakefield Sales Brochures;
3. Access to the dedicated Property Information Website;
4. Meeting with the Sales Team of Cushman & Wakefield

Key to the consideration of the site and the make up of this proposal is the planning situation and in particular the potential for the Property to be included in the Statutory List.

We note the likelihood of an early decision on the application for Listing and confirm that this proposal assumes that in the event that the Property is listed such Listing will be on the basis that redevelopment will be permitted behind the three principle facades to Grosvenor Square, Upper Brook Street and Upper Grosvenor Street – the façade retention scheme.

In the event that as the situation with regard to Listing evolves over the course of the coming weeks it is shown that there is resistance to the concept of the façade retention then we would look to discuss with you and your clients a revised planning strategy.

2. THE PROPERTY

24-31 GROSVENOR SQUARE, LONDON W1 as outlined in red on the attached H M Land Registry Map, and as described in the marketing literature.

3. EXISTING LEASE

A long leasehold interest granted by the Grosvenor Estate for a term of 999 years from 25th December 1954, at a fixed rent of one peppercorn per annum for the whole term.

4. PURCHASER

5. VENDOR

The State Department of the Government of the United States of America

6. PURCHASE PRICE



A minimum £270 million (two hundred and seventy million pounds)

7. INSTALMENTS

The Purchase Price is to be payable in two instalments as follows:

FIRST INSTALMENT

Instalment 1 is to be payable on Execution of a Sale and Purchase Agreement and a new Occupational Lease for the whole of the Property.

AMOUNT

£216 million (two hundred and sixteen million pounds)

Legal Title to the Existing Lease will pass with payment of this first instalment at which time the Purchaser and Vendor will enter simultaneously into an Occupational Lease for the Property.

See below heading Occupational Lease for details of the proposed Leaseback.

SECOND INSTALMENT

To be payable at the later of either 30th September 2013 or the day, thirty days after the Vendor informs the Purchaser in writing that it will cancel the Buy Back Option which the Vendor will retain over the Existing Lease.

AMOUNT

£54 million (Fifty four million pounds)

This second payment will be secured by a charge against the Property.

8. CONDITIONS

This offer is conditional on the following items being completed during an Exclusivity Period of 60 days to run from formal agreement of Heads of Terms between the parties:

1. A review of the full due diligence pack to be provided by the Vendor;
2. Full Building Surveys including Structural, Environmental and Measured Surveys;
3. Full Legal and Tax Due Diligence;
4. Formal Legal Contract.

9. OCCUPATIONAL LEASE

Attached herewith are the principal terms of a proposed Occupational Lease to cover the occupation of the Property on a full repairing and insuring basis by the State Department of the Government of the United States of America.

10. BUY BACK OPTION



It is understood that the Vendor wishes to retain the option to buy back the Existing Lease until such time as the provision of the new Embassy Facility (the New Facility) in Nine Elms has been completed. It is understood that the New Facility will be completed and occupied in 2017 and as such therefore the option to buy back the Existing Lease needs to last for a period through to the Embassy taking full occupation of the New Facility at that time.

A separate Buy Back Option will be put in place between the Vendor and Purchaser with this Buy Back Option to expire on the 31st March 2018.

The exercise price of the Buy Back Option shall be as follows:

1. The Vendor shall first return all amounts paid by the Purchaser to the Vendor in respect of the purchase;
2. The Vendor shall refund all the Purchaser's costs associated with the acquisition, management, supervision and holding of the property including Due Diligence costs, Survey costs, any form of taxes due, legal costs, interest on debt and equity and any other costs relating to the Purchaser having applied for and secured a Planning Consented design for the redevelopment of the Property;
3. The US Embassy will in addition pay a one off penalty to the Purchaser of £10 million.
4. For the avoidance of doubt the Buy Back Option can only be exercised if the Vendor has decided to stay in permanent occupation of the Property and to keep ownership of the Existing Lease.

11. EXCLUSIVITY

An Exclusivity Period of 60 days from agreement of Heads of Terms is to be provided for the Purchaser to negotiate a Sale and Purchase Agreement and a new Occupational Lease with the Vendor.

12. DEVELOPMENT

In formulating this proposal with the Professional Team we have assumed that the Property will be added to the Statutory List at Grade II.

Our base design and this proposal assumes that a Consent will be negotiated with the relevant Planning Authorities for a re-development behind the principle facades namely, Grosvenor Square, Upper Grosvenor Street and Upper Brook Street and that the necessary consent for such a re-development will be forthcoming from the Grosvenor Estate without need for any re-negotiation of the Existing Lease as described in Paragraph 3 above.

13. OVERAGE



1. Planning - The Purchaser will pay an additional consideration to the Vendor dependent on the outcome of the planning negotiations with the City of Westminster vis-à-vis the proposed façade retention development as defined above and illustrated in the attached Additional Information Pack. This overage will be payable at the rate of £500 per sq. ft for each additional planning gross sq. ft achieved on the ground and upper floors over a target minimum floor area of 226,000 gross external sq. ft. and subject to a maximum overage payment of £30 million.
2. Scheme - In addition to the aforementioned Planning Overage the Purchaser will pay a further sum to the Vendor dependent on the success of the overall Development, upon completion of the redevelopment of the site and the subsequent letting/sale of the whole of the development based on the following:
 - a. A prior development return to the Purchaser of 20% IRR on a post tax basis.
 - b. Any profit above the aforementioned IRR priority to the Purchaser will be split as to 70% to the Purchaser and 30% to the Vendor.
 - c. This overage will be payable 4 years after practical completion of the Development.

14. LISTING PROCESS

We are aware that the Property is subject to an application for a Statutory Listing by a third party and we have been monitoring the situation during the course of our investigations.

The outcome of the Listing Process is critical to the viability of the proposed Development.

We can confirm that in the event that the Property is not listed and demolition of the entirety of the Property is permitted and certain minimum floor areas are achievable as outlined in our New Building Scenario, then we will pay a further £50 million (Fifty million pounds) with payment on an instalment basis to be agreed.

15. JURISDICTION

All documents to be governed by the Law of England & Wales



16. LEGAL COSTS

Each party to be responsible for its own legal costs incurred in the transaction except in the event of the exercise by the Vendor of the Buy Back Option referred to in Paragraph 10 above.

17. TAX

It is assumed the precise structure of the transaction will be optimised to reflect the respective tax positions of the parties.

18. SECURITY WORKS WITHIN GROSVENOR SQUARE

A suitable allowance will need to be made for the removal of the security measures currently existing in and around Grosvenor Square

19. CONFIDENTIALITY

The terms of this proposal remain strictly confidential and must not be discussed with or revealed to anyone other than your clients and their advisors.

20. REFERENCES

Set out below are details of two referees to whom you and your fellow advisors may make any enquiries they deem necessary.

Hines

1. Timothy F. Waikem
J P Morgan Chase Bank
707 Travis Street
6th Floor North
Mail Code: TX2 - NO47
Houston
TX 77002
Tel: +713 216 4947
e-mail:tim.f.waikem@chase.com
2. Keith Probyn
Shell Real Estate
Regional Manager - Asia Pacific
One Shell Plaza
910 Louisiana Street
Houston, Texas 77002
United States of America
Tel: +65 6384 8582 Fax: 8852
Cell:+65 9652 5101
e-mail:keith.probyn@shell.com



ADDITIONAL INFORMATION

Per the formal Request for Information as issued on behalf of your clients, attached is a full information pack including details of our professional team, outline design and supporting documentation.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "A Reynolds", written over a light blue horizontal line.

Andrew Reynolds
Director
Hines UK

Heads of Terms for Leaseback of The American Embassy,
24-31 Grosvenor Square, London W1

1. LANDLORD

2. LANDLORD'S SOLICITOR

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

3. TENANT

The State Department of the Government of the United States of America.

4. TENANT'S SOLICITOR

Maples Teesdale
21 Lincoln's Inn Fields
London
WC2A 3DU

5. DEMISE

The American Embassy Building at 24-31 Grosvenor Square, London, as shown on the attached plan at Appendix 1 (the "**Property**") and arranged over sub-basement, basement, lower-ground, ground, mezzanine and five upper floors.

6. MEASUREMENT

A detailed floor area schedule is to be agreed on a basis to be discussed. This will be based on the agreed gross internal area.

7. CAR PARKING

Car parking is provided on the lower ground and basement level with additional spaces along Blackburne's Mews to the rear.

8. LEASE

A term of 10 years on full repairing and insuring terms – the Lease.

The Security of Tenure and Compensation Provisions of the Landlord and Tenant Act 1954 (Part II as amended) are to be excluded.

8.1 Break Option

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Heads of Terms for Leaseback of The American Embassy,
24-31 Grosvenor Square, London W1

After 1 January 2014 the Lease can be terminated at any time by the Tenant on six months prior written notice and in the event of such a termination the Buy Back Option (see offer letter) will automatically lapse.

The Lease will terminate automatically if the Tenant exercises its Buy Back Option.

The Tenant will covenant to exercise its Break Option when its new premises at Battersea (the New Facility) are available for occupation and relocation from the Property has been completed and the Property fully decommissioned at the expense of the Tenant and to the satisfaction of the Landlord.

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9.

RENT



The initial net annual rental payable will be £11 million payable quarterly in advance on the usual English Quarter days

9.1 Rent Free

There will be no rent free period.

9.2 Rent Review

The Landlord and Tenant shall agree to fixed annual rental increases as follows:

- For the first seven years in line with the increase in the Retail Price Index (RPI) - subject to a minimum of 3.5% per annum.
- Thereafter the rent will increase by 10% per annum.

10. REPAIR

The Tenant must put and keep the Property in a good and substantive state of repair.

11. RATES

The Tenant will be responsible for any business rates and all other outgoings payable for the Property.

12. STAMP DUTY

The Landlord will not contribute to the Stamp Duty Land Tax liability of the Tenant.

Heads of Terms for Leaseback of The American Embassy,
24-31 Grosvenor Square, London W1

13. ALIENATION

The Tenant has no right to assign, underlet or part with possession of the Lease as a whole or in part.

14. ALTERATIONS

Structural alterations will not be permitted. The Tenant will be permitted to carry out internal non-structural alterations without the need to obtain prior written consent from the Landlord, although subject to providing the necessary information to the Landlord. Any alterations effecting the plant and machinery will only be permitted subject to prior written consent from the Landlord.

For the avoidance of doubt, the Tenant must comply with any planning, listing or other regulations in carrying out any works.



The Tenant will be permitted, subject to Landlord's approval, which is not to be unreasonably withheld, to install communications equipment for its own use, such as aerials and satellite dishes to the roof of the property, subject to any statutory consent required and satisfactory insurance being obtained.

On surrender, the Property is to be returned in its original state as at the start of the Lease.

15. INSURANCE

The Tenant is to insure against all the usual risks (including terrorism). The Landlord will be required to:

- i. Approve the proposed insurance policy; and
- ii. The provider

16. USE

The premises are to be used as the Embassy and Offices of the Government of the United States of America only.

17. LEGAL COSTS

Each party to be responsible for their own legal costs incurred in the transaction.

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