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I am meeting McKillen on Monday

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McKillen wins backing for battle over London hotels

LA real estate investment firm pledges financial backing

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Belfast developer Paddy McKillen leaves The Rolls Building at The High Court, in central London, for his legal dispute against the Barclay Brothers. PRESS ASSOCIATION Photo. Picture date: Monday March 19, 2012.

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Frederick Barclay

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Patrick McKillen, who has been locked in a drawn out battle with the UK's Barclay Brothers for control of three of London's most exclusive hotels, has secured critical financial backing from Colony Capital.

The Los Angeles real estate investment firm has pledged to provide as much financing as Mr McKillen needs to regain control of his indebted empire, according to several people familiar with the matter.

At stake are trophy properties including the Berkeley, Claridges and the Connaught hotels in London as well as various other property interests in Ireland, the UK and the US.

The deal comes as the IBRC, which acquired the debt that Mr McKillen used to buy his minority stake, is completing the second round of an auction for the loans. The debt has a face value of between €700m and €800m. The Barclay Brothers, who have won two courtroom battles against Mr McKillen, control over 60 per cent of the hotel group's shares.

Colony's backing strengthens Mr McKillen's position, as have various lawsuits he has filed against the bad bank and the Irish government, these people added. If Mr McKillen regains control of the debt backing his shares, Colony's founder Tom Barrack will be reunited with assets he used to control and still knows well.

Sir David and Sir Frederick Barclay, who own the Telegraph Media Group and whose Daily Telegraph newspaper competes with the Financial Times, first began buying debt in the hotels in 2011 from Ireland's National Asset Management Agency.

They acquired an indirect controlling interest in the shares of one investor in the hotel group, Derek Quinlan, at that time. Mr Quinlan bought the three hotels in 2004 from Colony along with its then partner, Blackstone. He then created Coroin, a holding company for the

hotels, and teamed up with Mr McKillen.

One complication of the battle over the hotels is the fact that none of the major parties ever had 100 per cent control, with each struggling to gain more of each other's debt and equity.

"This is the battle of the uglies like you have never seen," said one person involved in the matter.

Among those who feared possible reputational damage from being dragged into the battle over some of London's best known properties are members of the Qatari royal family. Colony has refinanced the £55m loan which the family of Hamad bin Jassim, the former Qatari prime minister, made to enable Mr McKillen to participate in a rights offer last year.

Also last year, Blackstone led a refinancing of part of Mr McKillen's debt that is separate from the Irish auction, with both Blackstone and Starwood taking £50m each of the junior debt.

While the debt attached to the hotels is expected to trade at close to 100 cents on the dollar, potential bidders have said some of the debt on other assets which include shopping malls in the UK and Ireland as well as an office building in Boston, may trade at a discount.

In addition to Mr McKillen and the Barclay Brothers, hedge funds, real estate and private equity firms - many of which have raised big funds to bid for European distressed debt and equity - have submitted bids.

A spokesperson for Colony declined to comment.

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