

Transcript of Inmobiliaria Colonial Q2 2023 Results Webcast

Moderator: [00:00:00] Ladies and gentlemen, welcome to the Inmobiliaria Colonial Second Quarter 2023 Conference Call. The management will run you through the presentation, which will be followed by a Q&A session. You can request to ask a question at any point during the presentation by dialling star one on your telephone keypad. I'm now pleased to introduce Mr Pere Viñolas, CEO of Inmobiliaria Colonial.

Pere Viñolas: [00:00:28] Thank you, good afternoon. This is Pere Viñolas speaking. We are very pleased to introduce you today the results for the first half of the year. I'm on page 3. The way we are going to structure this presentation is, first of all, I'm going to deliver some views on the highlights of this first half of the year. Then afterwards, Carmina will step in with information on the financial performance. Carlos Krohmer will provide additional details on the portfolio performance and on the progress that we are having on the pipeline. And finally, I will go through some comments on the future growth of the company and some conclusions to summarise the presentation.

[00:01:24] The highlights about our performance. On page 4, we wanted to highlight five outstanding topics for our performance so far this year. First of all would be to say that the first characteristic of our performance is a very powerful delivery in terms of cash flow, EBITDA and EPS. We are finishing June with an EBITDA that grows 18%, reaching €152M compared to 129 of a year ago. If instead about EBITDA, we talk about EPS, our EPS in June would equal €0.16 cents per share. That is 14% more than a year ago. What's behind this outstanding performance in terms of cash flow is, first of all, the strong letting volume: 0.2. We've been finishing June with close to 100,000m², which are more or less equivalent to 43M of annualised rents.

[00:02:48] And this strong letting volume means an outstanding occupancy. This occupancy is now at 97%, in excess of 97%. So it's practically a full occupancy. In fact, what is exactly fully let is everything that we own in Paris. So I think that results cannot be higher: 100% in Paris, 97% for the group.

[00:03:19] And we would like to emphasise that it's not only about volumes, it's also about quality. What more and more is providing colour to our occupancy is that it is based on international consultancy firms and luxury brands as leading tenants demand. Besides EPS and EBITDA growth, growth is not only volume and occupancy, it's also rental growth. Rental growth remains a driving force. We've been signing contracts which mean a 7% ERP growth compared to the ERP for December '22. And that means not only a very good number, but it means also an acceleration of rental growth that is happening. And of course, one of the driving forces -- not the

only one, as we will see -- is the solid capture of indexation, which is happening there. And again, here the comment would be also on quality besides or behind these numbers. I think that it is also the driving force of the ESG characteristics of our assets that are also playing a main driver, playing a main role in this capacity to attract the interest of tenants.

[00:05:00] As a result of that, we finish the first half of the year with what we believe is a resilient valuation. Gross asset value goes down 3% like for like, so in relative terms, we believe it's outstanding. It's on the high end. It's a negative number, but it's very good in relative terms. And that is because value creation through projects, the ERP growth that we've seen, this is offsetting the fact that, of course, yields are going up. In fact, we would like to highlight that after this figure of NAV that you will see for 2023, June 2023, there is already 57 basis points of cumulative yield expansion. So let's say we are a long way into this repricing of the assets with a certain work done while the valuation becomes quite resilient.

[00:06:11] And the final point is about discipline and the capital structure. We've been able to deliver in the six months a relevant amount of disposals, 550M. This divested around appraisal values, which means that the ratios like a net debt on EBITDA are improving significantly. But we remain in any case with a very important hedging strategy that ensures our interest rates remaining below 2.5% in the long term.

[00:06:50] In this first section, maybe what I would like to do is also to provide a little bit of our views on the framework where our activity is happening, in a moment that everything related to real estate and in particular to offices is quite challenging. We feel we have to emphasise a little bit the obvious. One of the obvious remarks to be made is that we are benefiting from fundamental differences happening in the performance of Europe versus USA. And despite the fact that the, let's call it the American view is dominating the scene, particularly in capital markets, the actual data are what they are. And what we can see in this slide, for example, is the difference between post-pandemic office re-entry rate, which remains very high in Europe, particularly high in Paris and in Madrid. Nothing close to what may be happening in the US.

[00:08:04] Also, we could make some comments on the net absorption in Europe and the US compared to a ten-year average, which is quite positive in Europe, as it remains very negative to the US. You can look also at how the performance is doing, comparing the number of quarters with positive net absorption since 2020. You can see here the difference or simply the vacancy rate that you can see in Europe, a single digit compared to USA. And obviously, I'm just mentioning data that apply to the whole market, not to the high end or to Colonial's numbers. So that would be a first comment.

[00:08:56] Another maybe comment on this very general framework, I think that we are benefiting in continental Europe from the fact that European offices remain attractive for employees and with an increasing momentum. You can see on page 6 some comparisons on the office re-entry path in different cities around the world and you can spot the difference. And some comments also that we are providing on companies and what they're stating about their return to the office.

[00:09:33] And on page 7, maybe a comment more related to Colonial itself. As you know, we have a long-term strategy of being very much concentrated on the prime CBD assets. We want to outperform based on the polarisation trend that is happening everywhere. And certainly, you can see something happening in Colonial when you look at the high activity that is happening in our markets and what's happening to the office prime ERVs about the scarcity and demand from Grade A assets and about the trends regarding international employers in their path to return to the office. In our case, this means high quality kind of tenants entering into our office buildings. And that means not only very good letting performance, very good annual rents, very good growth, it's a kind of exposure that we like.

[00:10:42] Page 8 is a simple picture that illustrates here for Paris and Madrid what's going on with our buildings in terms of occupancy. The very small information regarding the market is comparing that in Paris are 100% compared to 97% in the CBD market, 84% in La Defence market or in Spain, 97% Colonial occupancy rate compared with 95 in the CBD market, 82 in the outer M30 market.

[00:11:22] Page 9 reminds us of where the buildings of our group are and what kind of performance are we achieving in terms of rental growth -- 11% in Paris, for example -- or the rental level in euros per square metre in Paris, Madrid or Barcelona, which are very much in the high end. Because of everything I said, because of what are the megatrends in our markets, what are the megatrends in our specific focus, our strategic approach to the market, basically, what is happening to our valuation - page 10 -- is that it is quite resilient. You can see here a 3% like-for-like impact on our 13B valuation as of December 2022. That translates, including some disposals, in 12.2 in June '23. You can see here that, of course, what's happening to our assets is that they are being impacted by a 57 bps yield expansion so far, which means that during this first half of the year, you have a significant impact in the valuation of our assets downwards. But you can also see to what extent rental growth, indexation, project delivery is offsetting partially what's happening to the valuation of our assets. So the conclusion, it is quite a resilient performance, outperforming in relative terms the market as a result of these underlying megatrends that are benefiting the positioning of our company. These will be my introductory remarks. Now I will ask Carmina to step in to talk about the financial performance of Colonial.

Carmina Ganyet: [00:13:30] Thank you, Pere. In this section, as usual we are going to detail the main indicators and the keys that underline the strong evolution of the results. The results of the first semester, as I mentioned, are described in the first place by a strong growth of the cash flow, revenues increasing 10% like for like up to €183M as well in the same strong direction, the EBITDA growing 18% and 23% considering the continued operation, recurring net profit increasing 14% year on year, 25% without considering the asset sales and the same growth year on year up the EPS up to 16.1 cents per share.

[00:14:21] Secondly, the first semester with the evaluation update, it's also described by a strong resilience in the valuation of our portfolio: a decrease of 3% like for like in six months, €12.2B, at the end of the first semester and the NTA per share at €12.88 per share, 6% decrease in six months considering the dividend per share. Additionally, we have demonstrated as well the ability to undertake investments in a very narrow market, confirming valuations for a value of almost €550M euros, updated with recent sales executed in July recently, for an amount of €75M. And finally, due to an active management of the balance sheet carried out on a permanent basis, the debt has been reduced of more than €300M. We continue as well with a very strong liquidity position, removing any financial risk, and we maintain, as you know, a fixed cost of debt with low market levels at 1.69% at spot and as well for the following years well below market levels, which ensures definitely debt coverage ratio according to credit rating.

[00:15:41] In the following slide, you can see the most relevant indicators more visually that show the growth of Colonial cash flow and as well the resilient profile of our portfolio. If we go to page 14, we analyse the recurring results. We see that it increases by 14% and without taking sales into account, the increases would be 25%. You can see in the building blocks the positive contribution of the continuing operation portfolio, €23M. On the other hand, the negative impact of the disposals of non-strategic assets, €4M and on the other hand, the negative impact of the financial costs of only €8M, basically due to the rate effect. Remember that in June 2022, the financial cost was 1.3 for our debt compared to the current 1.69%. The market has increased by more than 300 bips, while the cost for Colonial has only increased less than 40 basis points. Consequently, the EPS increased by 14% year on year, up to 16.1 cents per share, confirming the upper range of the annual EPS guidance. This strong EPS is based on a strong growth of gross rental income year on year. The portfolio in operation adds 14M, 8%. The entry into operation of the project has also a positive impact of an additional €20 million, 12%.

[00:17:18] Important to highlight that the Alpha strategy represents 22% of the growth of our gross rental income for this first semester. In the opposite direction, the sales, as you can see in the building blocks, of non-strategic assets, had an impact of 20M, and as a result of all, the portfolio with a higher quality has shown year on year a total increase of the gross rental income of 8%.

[00:17:49] And where has been this growth and why? I'm on page 16. It should be noted that the 8% rental growth has been positively impacted by a great performance in the Paris market with 14% rental growth. In comparable terms of the portfolios, the three markets have performed very positively, with an extraordinary evolution in Paris and Madrid. This extraordinary like-for-like growth of 10% is basically due to the combination of rental growth due to the lack of product in the markets where we operate, as well as in the indexation effect, as you can see here in the split of the price impact, thanks to the quality of the contracts and clients. And finally, thanks to the improvement of the occupancy, adding 12% of the growth of this like-for-like increase.

[00:18:44] And this rental growth is being accelerated. On this page, page 17, you can see the extraordinary year of the rental growth compared to the last three years. But above all, you can see the growth capacity of rentals beyond the indexation effects. Basically, based on the scarcity and quality of profile of our portfolio, as you will see later in the following section led by Carlos.

[00:19:13] As you all know, Colonial is characterised by a very active portfolio management in order to recycle capital and strengthen the capital structure. In a market as narrow as the current one, we have been able to sell almost €550M confirming valuation. The operations carried out in the month of July have reached 75M more, including a plot of land and a secondary asset with 17% vacant, both assets outside M13 Madrid, with an average premium of 13% to gross asset value, June 2023. I would like to highlight that the blended yield of the total portfolio sold achieved with the prices that have been signed and gross has been at 2.7%. This is the implicit yield at the pricing levels of the total portfolio, the total asset programme, of €550M. With this new disposal, we have been expanding the divestment plan that we have shared with you in the last presentation of results.

[00:20:25] As we commented previously, the updated valuation of the portfolio shows a clear sign of resilience with the valuation correction resulting from the expansion of yields of only 3% in the last six months, in comparable terms since December 2022. Basically, the negative impact of this expansion in yields has been offset by the increase in rents and the delivery of the projects. In the table on the right-hand side, you can see the yields resulting from the valuation at June. Bear in mind that in Paris, the yields are net and in Barcelona there are gross yields, and the cumulative expansion to date, 67 bips, almost 70 basis points in [inaudible] portfolio and between 36 and 39 basis points for the Spanish portfolio, with a total average yield expansion for the portfolio of circa 60 basis points.

[00:21:20] As we have been sharing in each quarterly presentation, Colonial has carried out a very active management of the capital structure and therefore of the debt and above all,

successfully covering the interest rate and any refinancing risk. In this sense, there has been a decrease in the net debt of 317M with a loan to value as of June post dividend, including the dividend that has been distributed in July, of 39%. We have a fixed cost of debt at a current rate of 1.69% and additionally, as a consequence of the pre-hedged close in 2021 for 50% of the debt at the rate of 0.67%, we can guarantee a financial cost in the coming years below market levels, in the range of 2.5%.

[00:22:15] Finally, if we look at debt to EBITDA ratio, in line with what has been analysed by the rating agencies and considering the portfolio in operation income producing on an annualised basis, the ratio has been decreased, reaching today a level of 12.5 times. The same ratio is reached in a dynamic view when the existing project pipeline is completed and generating full income.

[00:22:44] In the financial management, another important milestone of this semester that demonstrates Colonial's ability to have access to the financial market has been the signature of a new revolving facility of €835M under very favourable conditions and providing additional liquidity to the group. This revolving credit facility is qualified as a green loan, a reference to very ambitious green KPIs, that allows us to maintain a strong liquidity position of almost four times the maturities for the following two years and confirms our commitment in the ESG strategy for the group.

[00:23:28] Finally, the updated NTA calculation that is shown on page 22 shows the benefit of a quality portfolio and an active portfolio management. The increase in cash flows, as well as delivery of projects, have partially offset the expansion in yields resulting from the increase in rates, showing consequently a decrease of net NTA of 6% per dividend, €11.1 per share, and a decrease of 8% post dividend compared to December 2022, resulting to €10.9 per share. It's important also to highlight the additional equity value created through the debt and through our hedging strategy. This is shown in the net disposal value, reaching the level of €11.5 per share.

Pere Viñolas: [00:24:23] Thank you, Carmina. So you can see that in this section we've delivered quite substantial good numbers in terms of cash flow generation, revenues growing 10% like for like, EBITDA growing 18%, EPS growing 14% and valuations quite resilient. GAV 3% like for like down and NTA 6% after dividend to the new number of 10.88. Well, I think it's quite remarkable numbers. Let's now understand a little bit more what is there behind those numbers. Now, Carlos will step in to talk about portfolio performance and the pipeline.

Carlos Krohmer: [00:25:12] Thank you very much, Pere. Let me just start with page 24, a short view on the market. As you know, we are at the top-notch slice of the market. And why are we

there? How is this market behaving? As you can see here, in the CBD area, the Grade A products -- so the top product -- it's almost inexistent. In Paris, it's 0.4 percent, today 28,000m². And this has been throughout the last six years. So this really scarce availability of top product that everybody is looking for is really creating a significant upwards pressure on rents. As you can see, it has moved up from €850 per square metre a year in Paris CBD in 2017, up to €1,000 per square metre per year. And we have many examples in our portfolio where we are setting really the benchmark of these high-end rents. The same behaviour in the top segment of the Madrid market. There, the CBD Grade A availability is below 2%, corresponding to 70,000m². So also almost nothing available. We have seen there in the last six years a growth, a cumulative growth of 19%, reaching at the moment a prime rent of around 37 as you have seen in such examples, and in some examples we have signed even above.

[00:26:42] So with this, let's go to page 25: our letting activity in this first half, as Pere already mentioned, 1000m². This is another year in a row, a really historical high volume. We are at the same level as last year that was historically high, and we are more than 50% above the year 2021.

[00:27:08] In terms of quality, what we are signing is contracts with an average WALT of ten years, really long-term tenants locking in for long term. Who is driving this demand is the luxury industry, tech and media advisory services. They account for more than 50% of the contracts signed in the first half of this year.

[00:27:31] Our buildings have delivered strong rental growth. As you can see here on page 26, in the second quarter, the growth on ERV in the office portfolio has been 7% outstanding: Paris with plus 11%, Madrid, plus 4%, Barcelona, plus 8%. If we look quarter on quarter, quarter one had a blended ERV growth of 3%. Now quarter two has a blended ERV growth of 7%, so a significant acceleration. And on release spread, also very good numbers. Again here, outstanding Paris -- that is really the strongest market as you can see also because of the market data.

[00:28:12] On top of it, on all of the contracts that had been indexation-reviewed during the first half of this year, we have passed through the indexation. The total effect, the annualised increase of cash flow that we have put through is 5.7%, 6.3% in Paris and 4.3% in Madrid and Barcelona. What is important to highlight, the contribution of this increase in our PNL year to date is just 3% because not all of the contracts have been signed at the beginning of the first half. So they are being signed when the contract is due. So they are coming now progressively into our PNL. To say it in other words, we have secured 6% of rental growth of the full contract portfolio, of which 3% are already in the PNL and another 3% will come in the coming months.

[00:29:06] When we go to our occupancy profile, what you can see, as Pere mentioned, we are at 97%. That's really one of the highest occupancy ratios in the sector. And we have improved in year to date 160 basis points. We have improved on every single market. Paris is at 100%. Madrid, we have improved 137 basis points, and in Barcelona, more than 500 basis points. Barcelona is at 85%, but is basically concentrated in two renovation programmes and one secondary asset. Excluding this impact, the rest of the portfolio is at 95%.

[00:29:48] When we look at the next page, the overall vacancy rate of the group is 2.8%. And here you see really the benefit of the diversification strategy in many cities. These 2.8 account from 0.7% CBD Madrid availability, 0.4% CBD Barcelona and 1.7% renovation programme and secondary asset, Sant Cugat and Cedro. Secondary assets perform weaker. We have almost no secondary assets left. One in Barcelona, Sant Cugat and Cedro. A secondary asset in Madrid with a 17% vacancy, we just have sold it out. So this will further improve our vacancy profile for the next quarter.

[00:30:32] One of the very important real estate highlights this first half is the delivery of Louvre Saint-Honoré, one of our most impressive projects. We have signed a contract, a 40-year contract with Fondation Cartier with the first break option at year 20. This asset has been delivered just last Friday, some months in advance of the initial calendar. The yield on cost is above 7% and the capital value creation has been in excess of 350 million. So we have created value in excess of 350 million just in one asset. This is a capital gain on total cost of more than 168%. So this is also a big driver of our strategy. We deliver strong value creation and rental growth through urban transformation projects as, for example, this one.

[00:31:27] With this, we have basically almost finished our project pipeline. You know that we have a project pipeline of eight projects. I'm on page number 32. Out of these eight projects, seven have been fully let and fully delivered. So it's just pending Méndez Alvaro. Méndez Alvaro is going to be delivered during the first half of 2024. Out of this project pipeline in our PNL year to date are 34M of rents. What already has been signed and is not fully in an annual way in our PNL is 58M of rents. Also, to highlight, the pending CapEx of the project pipeline is really residual, in the range of 70 to 80 million, so almost nothing left, so fully de-risked the project pipeline.

[00:32:18] On page 32, you see basically what is the final execution of the project pipeline: Louvre Saint-Honoré delivered, Méndez Alvaro, a big iconic campus on the way, and we are working on reloading the pipeline with a very impressive additional asset, 3% in our portfolio, that we are currently in an analysis stage and we will soon in the future give some additional details on it.

[00:32:47] Important comment on page 33. It's not just about projects in itself and location in itself, it's also about asset quality, and in particular on this page, ESG credentials. We really have a strong commitment to ESG in order to create low-carbon destinations for our clients. This is what our clients want. We have a clear ambition. We have signed the SBTi trajectory pathway and we have done quite a significant delivery year to date, 68% in carbon reduction since our base year 2018. We are top-rated on CDP. We have the highest rating on the carbon disclosure rating, top 1.5% among 19,000 companies across sectors worldwide. And we had in 2022 a solid carbon performance with a 27% like-for-like decrease. Moreover, we create low-carbon destinations. We have here the recent examples: Miguel Angel 23 and beyond. Both are nearly zero buildings with very low operational emissions. And what is more important than that, the construction, the transformation of this building, has been done in the most efficient way, with the lowest embodied carbon ratios in the market -- 600kg/m² in Miguel Angel and 700 in Biome.

Pere Viñolas: [00:34:14] Thank you. So maybe some final comments from my side on the strategic level, how do we view the positioning of Colonial as of today. As you can see on page 35, our main remarks have to do with cash flow. So basically, what we think is happening is that obviously, the market is going through a certain repricing that has to do mainly with the dynamics of capital markets, of investment markets. But this is something that will have a certain time framework and a certain extension in terms of how wide it will be. Everyone can do their own assessments about this. On the other hand, there is something expected to happen with cash flows, which in the short term will offset, at least partially, what's happening to capital values and in the long term, will remain as the only one remaining driver for outstanding performance of any company. So we think that cash flow generation is a priority. And basically, we believe that you have to work in different layers of cash flow generation. Inflation is obviously one that we have to prove every quarter that we are delivering what inflation means for our cash flows. We've seen so far what has happened this year with its full pricing power. On top of that, you can see the rental growth coming from the prime positioning of assets. And on top of that, you may think of additional cash coming from new projects and also from the delivery of acquisitions that are coming at the prime factory level.

[00:36:11] The result that you can see at this moment is EBITDA growing 18%, earnings per share growing 14%. I think that this is a very powerful tool in order to be very resilient at this moment of the market. By the way, based on the EPS you see for the first half, we confirm the EPS guidance that we've given before, in the range of €0.28 to €0.30. But we are biasing our guidance towards the upper range, close to 30 and not close to 28.

[00:36:55] On page 36, I would also like to highlight two things. One is, our cash flow is resilient despite the fact that we are successfully disposing of assets. So we remain above €400M of

passing rents at the moment where we've sold a relevant part of our assets in the last few months. And the second message, this rough figure of 400 is expected to exceed 500, basically coming from just the pipeline that we are just finishing and for the different projects that the company is involved in at this moment.

[00:37:38] And then my final comments on page 37, again have to do with a more qualitative analysis of the situation. I think that what's happening to Colonial, first of all, is that we are benefiting from certain tenant trends that are happening in certain European city centres. There's an obvious scarcity of Grade A stock. There is a race to quality that is accelerating bifurcation in Europe and we are benefiting from this. There's an obvious appetite for low carbon destinations, which are outperforming the market in occupancy and rental levels. We are also benefiting from this. We believe that in terms of behaviour of the final user, central locations are benefiting from short commuting times, from a better appeal for this final tenant, from a better experience and cultural benefit of central prime offices with a higher level of well-being. All of these trends are as of today. So far it's been proven and this is creating this superior performance that I think that is positioning us on the higher end. Demand is concentrated on prime assets in central locations. You've seen the high volumes that we are experiencing. You've seen how this momentum has been accelerating, how the ERV growth remains strong, and last but not least, what kind of clients are joining us. You've seen very remarkable deals in the luxury sector, but also in the tech and consulting sector. This qualitative driver is very important.

[00:39:47] We remain a company which likes to invest in order to grow, to develop additional experience destinations. We've seen the benefits of the value that is created in projects like Louvre or Méndez Alvaro in Spain, and we have a strong track record on urban transformation with outstanding capital gains. You've seen the example of Louvre, for example.

[00:40:14] Regarding debt, we know that this is a sensitive topic. We remain quite disciplined on this. Our starting point is that we have had, I believe, a successful hedging strategy. I always like to remark that it's not only on spot terms analysis, it's particularly going forward -- where we will be 3 or 4 years from now -- that remains a fantastic differential tool. We are, because of that, benefiting from a spot cost of debt of 1.7%, which is expected to remain quite low for a number of years. And in any way, in any case, we remain disciplined regarding LTV, with a good track record of divestment so far -- €500M divested at appraisal value. I think that we are disclosing quite positive numbers regarding capital structure.

[00:41:23] And finally, how does this translate into valuations? There are short term reductions in valuation, certainly. I would only maybe emphasise a couple of things. One is, we are going down the road, more than 50 basis points already in the existing valuation of our assets. This is

something that has a certain time framework after which what remains as a sole driver for growth is your cash flow growth. And we believe that regarding this, our prime buildings are outperforming the market and are allowing us to remain very resilient in relative terms to the situation of the market.

[00:42:19] This has been the presentation of the results for the first half and we would be very pleased if in the near future we can come with the same kind of performance. That's all. Thank you and I will be very pleased to answer your questions. Thank you.

Moderator: [00:42:38] Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please press star one on your telephone keypad. Please be informed that there can be a short silence while questions are being registered. Thank you. Your first question comes from Veronique Meertens from Kempen. Please go ahead.

Veronique Meertens: [00:43:07] Hi, good evening, all. Thank you very much for the presentation this evening. Maybe to start off with maybe a bit of the obvious, the guidance that you said it's going to be on the wider end, but you're already reporting in €0.60 now. Cash flow is growing while your debt is stable, cost of debt is stable. So isn't it very conservative, the €0.28 to €0.30 for the full year?

Pere Viñolas: [00:43:36] Thank you, Veronique. Maybe we have a reputation of being prudent and conservative, I don't know. We don't want to lose this reputation easily, so I don't know yet. The numbers are what they are and we prefer to stick to the higher end. At the same time, we acknowledge that so far, the evolution is what it is. It's quite, quite strong. But yes, let's call it prudent, but we want to remain on the higher end of our guidance.

Veronique Meertens: [00:44:08] OK, that's good, thank you. And maybe zooming in a little bit on Spain, specifically Barcelona, you mentioned there's now 15% of vacancy, of which 10% can be attributed to the programs. So I was wondering, how is that pre-letting going and what are your expectations in terms of occupancy there? And then also looking at the releasing spreads, because you do mention one of the highest reversionary potential in Barcelona of 15%, but at the same time, the lowest release spreads. So I was wondering what happened there and if it were specific leases that you relet there.

Pere Viñolas: [00:44:47] I'll start with a general comment and maybe Carlos can step in with additional colour. Well, we've been seeing in the last months, maybe the last year, that Barcelona is not doing as well as Madrid and Paris, where, by the way, we have a vast majority of our exposure. We believe that this has to do maybe a little bit with the fact that Barcelona growth was

basically driven by the 22 [inaudible] neighbourhood. I think that today, demand is maybe weaker than the average while supply remains strong there. That means that it may take a little bit more time than needed to grow the occupancy. But any way, it is growing. You see that in the last six months, that has been growing nicely -- not to the level of Madrid and Paris, which cannot be better, but I think that's mainly the driver. And regarding the release spread, Carlos, if you would like to add any comment?

Carlos Krohmer: [00:45:52] As I said, on the Barcelona market, the vacancy is basically concentrated or mainly concentrated on three assets. One is one of our, I would say, almost last secondary assets in Barcelona. That is Sant Cugat. It's a difficult market. We sold last year an asset in Sant Cugat. Here in this asset, this is more challenging, the secondary market. And then the other two assets are renovation programs of Torre Marenstrum and Diagonal 530. Diagonal 530 is one of the best assets in the Barcelona market. We have had a lot of progress and we are there ongoing with solid letting momentum, so we will see improvement on that one. And the Torre Marenstrum assets is in the 22 [inaudible] and here we need a little bit more momentum of international demand, but we remain positive on this asset. But maybe it is a little bit slower than Diagonal 530. Having said this, it's also important to highlight that the weakening of the Barcelona market on the total portfolio of Colonial is really very, very little. So it's a minor impact on the total portfolio, and we did right in having this diversification and asset allocation as we have it today.

Veronique Meertens: [00:47:15] OK, thank you very much. That's helpful. Maybe one last question? Back on the leverage question. An LTV of 39%, but looking at it on a proportionate basis, excluding [inaudible], I actually get to a bit more than 44%. So I was wondering, you mentioned briefly discussion with the credit rating agencies. How much headroom do you have or maybe in terms of valuation declines, how comfortable are also the credit rating agencies at this point with your leverage?

Carmina Ganyet: [00:47:47] Yeah, thank you. Well, as you know, the rating agency looks at the credit metrics in more dynamic and quality and resilient profile of the cash flow. So when they analyse all the metrics, they don't only see or look at only the loan to value. They look at also the quality of the cash flows, the resilience of these cash flows, the quality of the tenants and how it looks like this cash flow, when the projects should be completed and some of them, you know, that are relet. So all in, they have confirmed the rating, even stressing some valuation as they did in the release they published at the beginning of this year. So they stressed the valuation. And with this stress of valuation, this stress test, I mean, because of the quality and the dynamic cash flow and the relet and the potential reversionary also, they qualified with a stable outlook our credit rating. So having said that, it's not only loan to value, it's also the quality of the cash flows and

any refinancing risk, thanks to the liquidity and also any debt coverage stress because of the hedge.

Veronique Meertens: [00:49:11] OK, thank you very much.

Moderator: [00:49:16] Thank you. The next question comes from Celine Sue from Barclays. Please go ahead.

Celine Sue: [00:49:24] Hi, good evening. Two questions for me, please. The first one is on disposals. We can see that you're selling assets with high vacancy, projects and land plots, which is quite interesting because it doesn't impact your PNL. So how much of your portfolio do you think you can continue to sell without impacting too much your income? And then my second question will be a follow-up to Veronique's question. By how much do your asset value need to fall before it hits your covenant? Thank you.

Pere Viñolas: [00:49:57] Maybe you can cover the second question.

Carmina Ganyet: [00:50:00] Well, on the second question, again, it's not having additional expansion that triggers the rating. As I said, no additional expansion would trigger one rating. But on the other hand, you have this quality analysis about what I mentioned before. So it's not that now we are in the range that the rating is for Colonial, triple B, [inaudible] triple B plus, with this loan to value with the metrics they are considering. With this updated valuation, we still have room to confirm even with additional expansion, but it's not only a matter of debt plus debt equity ratio...

Celine Sue: [00:50:50] I'm sorry, Carmina, I wasn't being clear here, but I'm not talking about credit rating. I'm talking about your bank covenant.

Carmina Ganyet: [00:51:00] Our main covenants?

Pere Viñolas: [00:51:01] Bank covenant.

Carmina Ganyet: [00:51:02] The bank covenant, sorry. The bank covenants, we have loan to value and ICR. And we are with a huge buffer on the covenants of loan to value according to existing metrics. So we have more than double-digit buffer up to the loan-to-value covenant in the banks.

Pere Viñolas: [00:51:32] Regarding the first question on disposals versus earnings. Well, you've seen that, first of all, how disposals have been concentrated so far. Quite a lot in assets, which

are at a certain level of vacancy or even a land plot, as you suggested. And the question, I understand, is if we had to do more disposals, what we may expect that would be happening on our earnings. We believe that it would be quite limited because, first of all, for the good and for the bad, we are a company with half top prime assets, which means that our yields that are not so high usually. So for the good and for the bad, this doesn't impact so much. And the second thing that I would say, as you have seen for the first half, the performance of the cash flow in terms of indexation, in terms of growth from any point of view has been so remarkable that we've been able to absorb any downside on EPS coming from disposals. So I believe that we can remain with a strong set of cash flow KPIs even if we were to divest additionally, following a little bit the same path that we've experienced in the first half of the year.

Celine Sue: [00:53:04] Thank you very much.

Pere Viñolas: [00:53:06] Thank you, Celine.

Moderator: [00:53:10] Thank you. The next question comes from Fernando Abril from Alantra. Please go ahead.

Fernando Abril: [00:53:19] Yes, hello. Thank you very much for the presentation. Most of my questions have already been answered. Just maybe you can talk a bit about the investment market. So what is the mood right now in the markets where you operate? And also linked to this, an update on the Mendes Alvaro project. So you started commercialisation a year ago. So I don't know, what are the plans? What are your plans for this big asset? Thank you.

Pere Viñolas: [00:53:54] Thank you, Fernando. On the first question regarding performance of the investment market. We see a little bit of the same that was happening in the first half of the year, even on the second half of last year, which means that we have to differentiate between different submarkets. If we talk about a market for CBD and the average size of an asset is not big, then the market is being quite liquid and performing quite well. So I think that the interest, the appetite, that we see remains there and remains in the levels of valuations as the ones you see when we inform about any transaction that we've done. This remains the same as of today, the kind of interest that we are having from certain potential investors. If we talk about a more institutional market, I think that we still are in the early stages of normalisation. I think that we are going in the right direction.

I think that what's happening is simple. Institutional investors need the final clarification of the framework in terms of interest rates and inflation going forward, and I think that every month that goes by, we are closer to a clearer picture. Then you know that there is a more tactical story about

the denominator effect. For whatever reason, anyway, I would say that an institutional market for bigger transactions is not there yet. And I think that we have to be a little bit more patient, particularly when you are sitting on very high-quality assets. I think that our duty is just to wait for the right moment to strike a deal that is in the interest of our shareholders, as we've done in the last few months. On Méndez Alvaro. I think that we're still in the early stages. We've done some initial strategies on the marketing front with leading brokerage companies or commercialisation companies. We are seeing the initial interest. I would say that as of today, the degree of confidence of the team is quite OK. I have no particular concern. I think that this will follow its path. No great news as of today. Still early stages, but at the same time not a particular concern on our side on this. Hopefully, in the next quarters, we will come with more specific news, but still very much at the beginning regarding Méndez Alvaro.

Fernando Abril: [00:57:03] OK, thank you. Bye-bye.

Pere Viñolas: [00:57:06] Thank you, Fernando.

Moderator: [00:57:09] Thank you very much. Ladies and gentlemen, let me remind you again if you have any questions or comments, please dial star one on your telephone keypad to enter the queue. Thank you. Your next question comes from Jonathan Nader from Goldman Sachs. Please go ahead.

Jonathan Nader: [00:57:32] Good evening, and thank you for taking my question. Just looking at your earnings guidance and your [inaudible] was the upper range. Can you comment on where your cost base is in particular? I mean, obviously, you have strong rental growth. How are your costs evolving? Are you expecting them to increase? And do you see a chance that you could be above guidance? Thanks.

Pere Viñolas: [00:58:01] Jonathan, I missed the last part of the question. Could you rephrase it? Sorry, because the sound was not very good.

Jonathan Nader: [00:58:07] Sorry. I just wanted to see whether you had a chance of being above the guidance that you've already provided. It was particularly low this first half or was it a run rate on a constant basis?

Pere Viñolas: [00:58:23] Oh, no. Look, honestly, there was a discussion internally regarding guidance because the numbers are what they are. And as of today, for the first half and as of today, we do not identify any downside because we know of anything happening on the second half. So all other things being equal, it may come that this guidance may be revisited, but simply

maybe because of fluency or being too conservative, we decided just to remain on a guidance on the upper end of what was being said a few months ago. But just to provide a little bit of colour, as of today, we do not identify anything happening in the second half that would change the performance of our cash flow generation.

Jonathan Nader: [00:59:22] OK, thanks.

Moderator: [00:59:26] Thank you very much. Ladies and gentlemen, once again, if you do have a question, please dial star one on your telephone keypad. Thank you. There are no further questions in today's conference. Dear speakers, back to you.

Pere Viñolas: [00:59:47] Well, thank you. Just as a final remark, just to thank you for your attention. I think that the summary is that the machine is working in Colonial. And having said that, there is this market situation that we have to navigate. I think we've delivered a strong set of results regarding cash flow. Just to emphasise what I just said, if anything, we are doing surprises on the good side and we should remain at that level regarding the second half, at least with the information we have today. So hopefully in the next few months, we can reconfirm our strength regarding our performance. Thank you very much and have a very good day. Thank you. Bye-bye.