

Inmobiliaria Colonial – 1H2024 Results Presentation

[00:00:01.830] - Moderator

Ladies and gentlemen, welcome to Colonial first half 2024 Results Presentation. The management of the company will run you through the presentation that will be followed by a question and answer session. You can ask a question by phone by pressing star five on your telephone keypad. I would now like to introduce Mr. Pere Viñolas, CEO of Inmobiliaria Colonial. Please, sir, go ahead.

[00:00:31.700] - Pere Viñolas

Thank you. Good afternoon. This is Pere Viñolas speaking. As usual, I have with me Carmina Ganyet, Chief Corporate Officer, and Carlos Krohmer, Chief Corporate Development Officer, and it is a pleasure to have the opportunity to share with you the results this time for the first half of 2024.

[00:00:55.410] - Pere Viñolas

Before going into the numbers, I think that it's important to give some comments on the strategic positioning of Colonial because we believe that it has a direct relationship with the results that we have. As you know, the office asset class, it's an asset class that is having a behaviour quite challenging in some parts of global markets. We would like to emphasize is that there are different markets with totally different behaviour within this office market.

[00:01:35.090] - Pere Viñolas

Our strategic focus has been in the prime asset class, where we believe that there is an outperformance, and due to the unique nature of the demand and supply of this asset class. The prime asset class product is an asset class where demand has been showing consistently since the start of COVID, an increasing momentum, characterized by a very strong appetite by end users, which are looking for uniqueness of user experience, which are looking for a top product, so the demand, as opposed to some trends in other parts of our universe, the trends are very strong, are very positive.

[00:02:26.730] - Pere Viñolas

If we think about supply, the uniqueness of our positioning is that supply is definitely limited. The first characteristic of our universe, of the prime asset of this universe is the scarcity. The scarcity means limited. New supply means limited stock. If you put these two trends, a super strong momentum on demand and super scarcity in supply, which I know it does not happen in other parts of the office world, the logical consequence is very healthy rental growth and very high occupancy level, which again, I understand that is not the case in some other areas of the office product, but we believe that it's totally different characteristic in our case.

[00:03:25.190] - Pere Viñolas

It's a totally different characteristic in our market. This has been the case now for almost five years since the start of COVID. The best is clearly very different than the rest, and if we go for a simplified view of the office market, it's not reflecting reality, and it's not helping us, and we believe that our unique positioning is the one that explains the kind of performance that we will now share with you.

[00:03:58.170] - Pere Viñolas

Also, I think that the uniqueness of the prime positioning has two other important characteristics. The first one is that it allows for value creation through urban transformation of the office product that we own. There's a capacity through the platform that Colonial represents to provide higher value to the transformation of our office assets, and second, there's also the optionality of providing additional value through new uses, to a new mix-use approach to the properties that we own.

[00:04:38.720] - Pere Viñolas

I think that this remark is very important because every now and then, when we go through the results that we present, we see a differentiated approach that deserves a differentiated view, and that it's really what explains the results that we are sharing with you on a regular basis.

[00:04:59.290] - Pere Viñolas

On page five of our presentations are the main highlights of the results for the first half. There are four things that we can say about the results for the first half. The first, and more important, would be the sustained cash flow growth. The gross rental income is growing 6.5% like-for-like, 7% in Paris, 9% in Barcelona, that is translated into an EPRA earnings of 92 million, 6%, and an EPRA earning per share of 17 cents per share, 6% growth, too.

[00:05:43.230] - Pere Viñolas

What is driving this sustained cash flow growth is the outstanding operational performance. Again, the 6% rental growth, as we will see later. That means very healthy pass through dynamic in our properties, plus an outstanding rental growth performance, a 9% release spread, and an occupancy that remains very close to full occupancy, 97.3%.

[00:06:18.490] - Pere Viñolas

This is remarkable, but this is not nothing new. We've been showing this kind of performance, this kind of results for several months and years so far. As you know, I like to emphasize that are not only very high, they're not only very good, but they are better than, better than what you can see everywhere else in the market, in the office market.

[00:06:52.890] - Pere Viñolas

Maybe what is different this time from the last time we share the results with you is regarding asset values. The other thing that is happening or has happened during the first half of the year is that not only operational performance has remained strong, but also asset values has stabilized. In fact, they've shown slight growth. Our gross asset value now is equal to 11.3 billion. That represents a growth of 0.7% like-for-like. As we will see later, this, again, is not only good, but better than.

[00:07:36.340] - Pere Viñolas

Regarding the balance sheet in these six months, we've been delivering the disposal strategy, 200 million years to date with an average of 11% premium on appraisal, and as a result of this performance, the net tangible assets per share are now at €9.66 per share.

[00:08:06.770] - Pere Viñolas

Finally, we remain with a solid capital structure. You know that there's been a relevant fact that is not part of the first half of the year, but is already existing and executed in the company. The net tangible assets are now €5.8 billion post-alpha after the new equity injection of more than 600 million because of the recent transaction. The loan-to-value remains lower, 36.7 post-alpha, and the financial cost remains, again, as usual on the control. 1.74 is the average cost of our debt, so very healthy numbers, we believe.

[00:09:01.160] - Pere Viñolas

This, of course, has a direct relationship with the assets that we own, and a specific uniqueness and location of these assets that you can see on page six. The best prime property is delivering our performance in rental levels. You can see that now in Paris, to have a maximum rent of above 1,000, 1,100, it's now something that is not extraordinary. It's starting to be ordinary course of business for us, and Paris is showing a 14% rental growth for the second quarter of this year.

[00:09:46.960] - Pere Viñolas

The same kind of healthy rental performance is clearly shown in Madrid and in Barcelona. But as I said just before, maybe what's new this time, as opposed to six months ago, is that it's not only the rental growth which is growing, is that this rental growth is offsetting the limited cap rate increase that our asset value has increased, and therefore, as a consequence, our assets are showing a growth of a 0.7% like-for-like compared to December 2023.

[00:10:37.630] - Pere Viñolas

Of course, because of the disposals that executed, the absolute number shows a slight decrease and now the GAB is 11,267,000,000, but as I say, this figure shows an improvement compared to six months ago, and it's showing a different kind of dynamics that we saw in 2023.

[00:11:09.050] - Pere Viñolas

Finally, the last highlight that I would like to share is that in this new environment, the new projects that we are developing are important. We just announced the Alpha X project as a result of that transaction that we announced with the new shareholder criteria joining the company.

[00:11:35.510] - Pere Viñolas

These projects are being launched and are, I think, the other characteristic of the performance that we are experiencing this year is not only about ordinary growth from our existing assets, it's also new expectations of value coming from the urban transformation, from a new cycle of urban transformation that is going to take place through these different projects that we are launching with very good expectations of return for all of them.

[00:12:13.600] - Pere Viñolas

In a nutshell, as you will now see in details, very good numbers for the first half of the year, both on the operational side, but also on the valuation side. With this introduction, let's now go more in details, and Carmina, please go ahead with a section on financial performance.

[00:12:38.510] - Carmina Ganyet

Thank you, Pere. In this section, as usual, we are going to analyse in more detail all the financial KPIs. In page 10, as you can see, we deliver another quarter with a strong growth in earnings, basically, back on the prime property strategy. The gross rental income increases 6.5% like-for-like and up to €192 million for the first semester of this year.

[00:13:07.550] - Carmina Ganyet

In the same line, we are delivering an EPRA earnings of €92 million, 6% again, versus previous year, and 10% without considering the disposals that you see that we have been facing since June 2023 up to today. In this respect, the EPRA EPS, in terms of per share, we provide, we deliver a growth of 6% up to 17 cent of euro per share, in this first semester.

[00:13:46.180] - Carmina Ganyet

As you know, we have been updated the appraisal this semester. As Pere was mentioning, the updated growth asset value shows an increase of a slightly positive 0.7% like-for-like. As you know very well, the settlement of the transaction of Alpha X or Alpha 10, so the capital increase and the contribution of assets, as well as the disposal of Méndez Álvaro Residencial has been settled in July 2024, so as a result of these two transactions, the gross asset value would represent €11.4 billion.

[00:14:27.260] - Carmina Ganyet

Consequently, the debt for the first semester remain stable, but we need to consider the transaction that has been executed in the first part of July and the first days of July, so the capital increase, the contribution of cash, and as well the disposal of Méndez Álvaro. After these transactions, the pro forma debt shows a figure of €4.4 billion, which represents a reduction of €500 million.

[00:14:58.280] - Carmina Ganyet

Consequently, the net tangible assets, in absolute terms, post-transactions is €5.8 million. In terms of shares, where pre-transactions, in terms of euros per share, it's €9.66, so after being updated the appraisals, after being paid the dividend, the net asset value is €9.66. In line when you add the dividend that we have been paid, you will see later on in more details. But after the transaction, the execution of the transaction of the capital increase, the net asset value in terms of euros per share, so is a figure of €9.3 per share.

[00:15:48.330] - Carmina Ganyet

In line, slightly better than what we have been delivering, and we released when we announced the transactions of Alpha X slightly better, based at that moment, December, on the figures, December 2023. Now, after being updated the appraiser, the figures remain slightly better than what we have been releasing when we announced the transaction.

[00:16:15.300] - Carmina Ganyet

In the next page, we saw in more details what are the main drivers of this strong performance. The first part is a growth rental income showing this 5% year-on-year, but in terms of like-for-like, as we said, 6%. Basically, the portfolio, in terms of comparable portfolio, and this pricing power are adding €11 million, 6% growth, and thanks to the project pipeline that we have been delivering in the second part of 2023, that now are impacting the full semester of 2024, we are adding, additionally, 6% of rental income.

[00:16:59.310] - Carmina Ganyet

On the opposite side, as you know, we have these two main positive impacts of the like-for-like growth of the comparable portfolio and the project delivery are overcompensating the disposals that we have been facing during this period of time.

[00:17:18.280] - Carmina Ganyet

In the next page, you can see how has been behaved the three markets. All the three markets has been behaved positively. In absolute terms, Madrid, 16% decrease. It's due to the fact of the disposal that has been concentrated in the Madrid market. But when we go in comparable terms, the like-for-like shows a very positive performance in the three markets. 7% in Paris, Madrid, 3%, and Barcelona, 9%.

[00:17:54.510] - Carmina Ganyet

Basically, behind this strong performance or the strong like-for-like growth is mainly driven by rental growth, 2%, again, indexation. You know that we are having this indexation impact with all our contracts, so 3.1% growth through indexation and better occupancy, especially in Barcelona, of 1.3%, so these are the main drivers behind this growth rental income, highlighting the pricing power above indexation in all the three markets.

[00:18:33.650] - Carmina Ganyet

When we look at the EPRA earnings, the trend is the same, so we are acceleration towards upper range of our guidance. We can confirm our guidance of the EPS for 2024 between 30 cents and 32 cents, confirming the upper range thanks to this strong performance of this first semester.

[00:18:55.870] - Carmina Ganyet

As you can see here, portfolio continued operation adding €12 million in comparison to the recurring profit of last year, overcompensating the other negative impacts , especially the discontinued operation during this period of time, so consequently, confirming the upper range of the EPS for 2024.

[00:19:17.070] - Carmina Ganyet

As I said in next page, we are going in more details about the appraisal and how has been the updated figures of our appraisal. As you can see, we have a positive impact of this rental growth, especially with this prime position of updating rents in the upper range of the rental market, adding this close to 2%, 213 million more in our gross asset value. This has a positive impact of 2%. On the other side, in this semester, we are experiencing slightly expanding yields which has this rate impact of 130 millions minus 1.16%. So consequently, the pricing power, the rental growth are overcompensating, are offsetting the negative impacts on rates.

[00:20:18.570] - Carmina Ganyet

When you see in the variation of this last semester, you see in the Paris market a growth, a variance of these six months of 1% like for like in our portfolio, in Madrid 0.06%, and Barcelona, slightly negative 0.5%. I would like to highlight the capital value.

[00:20:39.130] - Carmina Ganyet

When you look at capital values in terms of euros per square metres in every single market, you can see here that we are in the prudent levels according the quality of the portfolio and according the recent transaction that we have seen in the markets, and also the capital values and the transactions we have been able to dispose and to settle and execute over and above with a premium on the capital values from the appraisal. I think here it's a very, I would say illustrative levels of what we have the appraisal being updated.

[00:21:16.680] - Carmina Ganyet

If you look at the yields, we are in the range between 4.3, 5% yield. These are the yields according the rates that has been, hopefully, being established, which represents an expansion yield from the peak since the first semester of 2022 between 80 basis points up to 130 basis points in different markets.

[00:21:42.810] - Carmina Ganyet

Consequently, after being analysed what has been represented in the first semester and the appraisal in the next page, you see how this performance has been translated into the NTA. The NTA remains stable. You can see here how has been the main impacts on the NTA evolution, a positive impact basically on the rental growth, as I explained before in the variance on the gross asset value, a positive, of course, impact on the EPS for the first semester, and a negative impact. These two impacts compensates the NTA impact, the negative impact on the NTA due to the rates and other impacts.

[00:22:33.660] - Carmina Ganyet

Basically, the NTA per dividend remains stable at €9.93 per share, and after the dividend paid, 0.27, the NTA in June remains at the levels of €9.66. So 2% positive impact from recurring earnings and 3% positive impact through rental growth and project delivery, compensating the negative impact of the rates and other impacts. Basically, NTA remains in the stable zone.

[00:23:09.560] - Carmina Ganyet

When we look at in absolute terms, the equity value of the company, in page 16, basically, as I mentioned, remains stable in the range of €5.2 billion, but considering the execution of the Alpha X, settled in the beginning of July, in absolute terms, the equity value are in the €5.8 billion. In terms of euros per share, as I mentioned, €9.93, considering the dividend paid, remains stable in June compared to December '23 figures. But after the transaction of Alpha X, the capital increase executed in July 2024, the euros in the NTA plus dividends in terms of euros per share are in 9.57.

[00:24:05.240] - Carmina Ganyet

This is in line, slightly positive with the numbers that we disclosed when we announced the transaction. At that moment, the numbers was based in the figures of December '23, which is, I would say, positive because after being updated the valuation, after the six months and after the semester, the numbers remain very positive and more positive that we've released at the moment that we announced the transaction.

[00:24:35.620] - Carmina Ganyet

If we go to the other part of the capital structure, the debt, I am in page 17. You can see here an improvement of the net debt after the transaction of the capital increase and after the transaction of the execution of the rental average residential during the last days. An improvement of €500 million. This means secure level of liquidity, which represents 1.8 times covering the maturities from this year until 2026, which we are in the very healthy zone.

[00:25:11.480] - Carmina Ganyet

In terms of loan-to-value, we remain below 40% loan-to-value in the range of 44 EPRA loan-to-value. Considering the operating cash flow from our portfolio, we are in the net VDA in the range of below 11 times. As you know, and Pere was mentioning, we are secure or we have a cost of debt secure during this year and the following years. We maintain a low cost of debt of 1.7. Since 2022, we are in line with this cost of debt.

[00:25:50.100] - Carmina Ganyet

Thanks to this pre-hedge policy, we can secure a cost of debt during the following years below 2.5% because all the debt are fully hedged or fully pre-hedged for the future maturities. In the last page, some comments about what we have been enhancing and strength the liquidity. Basically, we have been renewal €1.9 billion of credit facility with updated ESG metric.

[00:26:27.200] - Carmina Ganyet

This renewal has been extended with a longer maturity of 5 plus 1 plus 1 with a better cost of margin. So we have been also improving our margin. Of course, with a pull of bank international reference institutional financial institutional, and with a new ambition plan of ESG KPIs based or in line with our decarbonisation plan that we have been releasing and sharing with you, basically with an ambition plan of reduction of carbon footprint, of course, with the asset certification of our portfolio and maintaining the outstanding level of GRESB rating.

[00:27:20.370] - Carmina Ganyet

Thanks to this ambition plan on ESG, we have been able to improve our margin. Of course, if we succeed in our ambition ESG plan, we will have a better financial condition. Again, we have been also actively doing liability management during this first semester. We have been refinancing in advance the bond maturity this year, tapping the market of €200 million of reference of 2029, and highlighting that we have been confirmed by SMB our triple B plus rating from the rating agency.

[00:28:02.500] - Pere Viñolas

Thank you, Carmina. Let's now step into the next section dedicated to portfolio management. Carlos, please step in.

[00:28:11.360] - Carlos Krohmer

Thank you very much, Pere. I'm on page 21. As Pere explained at the beginning, we are playing an asset class that is the prime segment, that is the prime property in the urban city centre. This prime asset class is delivering our performance.

[00:28:30.630] - Carlos Krohmer

What does this mean? Let's be factual. Let's look at this page. We have signed, year to date, 66,000 square metres, 20,000 in Q1, 46,000 in Q2. This is quite remarkable. First of all, as all of you know, our normalised run rate is 100,000 square metres per year. Half of the year, we've already done two-thirds of our normalised run rate. This is even more remarkable if we start from a point where we are already at almost full occupancy at the beginning of the year. So we are letting quite a lot.

[00:29:09.990] - Carlos Krohmer

If we go a little bit more into the details and see the velocity from one quarter to the other, we see that it's even accelerating. We have signed 46,000 in Q2. This is more than two times what we signed in the first quarter. If we go into the details in terms of the different markets, we have signed, for instance, out of the 28 million of annualised rents that are behind the 66,000 square metres, 10 million of euros are Paris assets for a total surface of 12,000.

[00:29:51.390] - Carlos Krohmer

Ten million divided by 12,000 means that all of the contracts that we have signed are on average above €1,000 per square metre. We've signed quite a lot of them even higher. A typical question that some of you put us in the one-on-ones, on what are the incentives attached to it? The incentives on the office lettings in Paris are 11.6%. It's a super low-end range on the retail premises signed in Paris, 6%, and in Spain, 6%. So low incentives, but very high rent.

[00:30:27.830] - Carlos Krohmer

As you can see here, we've quite top-tier clients, and we have here some examples. This is the first overview of what is happening and what has happened during the first and second quarter of the year 2024.

[00:30:46.490] - Carlos Krohmer

If we turn the page on page 22, this translates into super high occupancy, 97.3%, an increase versus the beginning of the year. If we go into the details, our CBD Explorer is close to 100%. It's not that some assets are at super high occupancy, and we have some of them empty. It's really spread across the portfolio. Again, a prime asset class really outperforms the market and uppercuts in both terms, in absolute terms and in relative terms.

[00:31:26.530] - Carlos Krohmer

What is the economic impact of what we have signed. This is on page 23. First of all, we are capturing all of the indexation. Main driver is now Paris because we have here a lacking element of the index.

[00:31:45.320] - Carlos Krohmer

Then I would like to highlight the other two metrics, that is the release rate and the ERV growth. If we go to the release rate, it's plus 9%. This is quite high. The last three years, it was well below. In 2021, it's 7%, in 2022, it's 6%, in 2023, it's 5%. We've signed at 9%, quite high, especially the most prime market of Europe, our Paris portfolio plus 22% super strong release rate.

[00:32:18.780] - Carlos Krohmer

When we go to the yearly growth, the yearly growth is what are the rents that we've signed compared to the market rent in our appraisals as of December. This shows, in a way, the rental growth of the first six months of the year. We have a blended rental growth of 6%. This is quite high and in line with previous years. We have a significant acceleration in Paris with double-digit yearly growth plus 10% for the first half.

[00:32:58.340] - Carlos Krohmer

Again, when we go quarter on quarter, you see here at the right-hand side, the bottom of the page, we see, especially in Paris and Madrid, relevant acceleration. It's not just that we are letting up more space in Q2, we are letting it also in a more expensive way.

[00:33:20.320] - Carlos Krohmer

Then we are delivering, we are finishing our previous Project Pipeline. Almost everything has been delivered. We are about to deliver during the year an urban mixed-use campus in the south of the city of Madrid, in the centre of Madrid. These are very attractive mixed-use premises, 56,000 square metres office, 4,000 square metres retail. We are experiencing a lot of interest as of today. We have 25% of GLA with head of terms and even before of delivering the project. There's almost no Capex to be deployed any more, roughly 15 million. We expect of this premise once it is led to have 19 million of annualised rents, yield on cost in excess of 8%.

[00:34:20.210] - Carlos Krohmer

Finally, what's obviously also very attached to the prime asset class is to be really at the high end in terms of sustainability. You know that CDP sustainability stress, we really talk at the high end. Moreover, in recent weeks, we have been also recognised by Financial Times and Time among the world's most sustainable companies in 2024. That is quite also a very important element in our strategy of positioning in the prime asset class.

[00:34:57.680] - Pere Viñolas

Thank you, Carlos. Let's now enter into the final section, which is focus on some comments about present and future growth. I'm on the slide 27. The first thing I would like to share is that maybe one of the main characteristics that are describing our recent performance is a very strong EPS growth that we are experiencing. We share a 6% increase number. Let's not forget that this is in the framework of a period where we've been disposing of a number of assets.

[00:35:45.440] - Pere Viñolas

If we look at the number of the EPS growth on their like for like of continued operations through a comparison, then the growth would be 10%. I think that this is a consequence of a multi-layer growth platform. It's because of the fact that the kind of product that we own, first of all, it's proving to be a perfect asset in terms of pricing power of passing through inflation. Therefore, the characteristic of any real estate asset, which is an inflation hedge, is proving to be perfect in our case.

[00:36:24.970] - Pere Viñolas

It's also rental growth that is happening because of the balance between supply and demand in our product. It's also coming from the Project Pipeline and the acquisitions that we're going through in recent years. So very good EPS growth as start in common. But if we look beyond that number, what is the main driver, the main reason? I think that, as I said at the beginning, the fact that the best prime property is delivering the highest rental growth.

[00:37:01.640] - Pere Viñolas

I think that the main concept to retain here is prime is different. The best is not the rest. They have different performances. In this page 28, you can see the different performance, the different behaviour of the office rental market for prime properties in Paris or in Madrid, as opposed to the outer M30 in Madrid or La Défense in Paris.

[00:37:33.930] - Pere Viñolas

There's a very different performance in these two different markets. As a consequence, you can see on next slide on the page 29, the outperformance that we are experiencing in terms of occupancy. We have today 100% occupancy in Paris, 96% in Madrid, 99% in prime CBD Barcelona, 86% in non-prime CBD Barcelona. As I say, the main characteristic of our positioning is that we are benefiting from the fact that prime is different, prime is better. Therefore, it's not a coincidence that the results we are showing this first half are not only good in absolute terms, but in relative terms to our peers.

[00:38:36.100] - Pere Viñolas

In page 30, we are comparing the gross rental income, year-on-year growth, or the gross rental income, like-for-like year-on-year growth, and the occupancy numbers, and you can see where Colonial ranks compared to the general sector. Maybe the other thing to highlight is that this is not only relevant talking about, let's say, the P&L, talking not only about rents, it is also the same situation when we talk about value.

[00:39:15.190] - Pere Viñolas

Our prime assets are leading the market in the value of stabilization. You can see here the GRI like-for-like evolution in the last six months, and you can see that it's closely correlated to the asset class. Either if you are prime or you are in the rest of the office market, the performance is different. This is the starting point on where we are. The other comment on where we are is about the cycle.

[00:39:49.550] - Pere Viñolas

On page 32, we can see where are we today. We've gone through a four-year period where we experienced a price adjustment in 2023, where the rental growth, being very important, could not offset the value decline coming from increased rates, increased yields. But this year, for the first half of 2024, we can see that we come back to the general rule that we already saw in 2021 and 2022, where rental growth and project delivery more than offset the impact that the evolution of rates may have in our gross asset values. In other words, we are at a moment of a cycle that is changing compared to six months ago.

[00:40:53.250] - Pere Viñolas

In this context, which are the strategies that we would like to favour? Let's say three things. The first thing, of course, is to benefit from the growing demand for premium space in prime locations. We will remain focused in this strategy of flight-to-quality that is showing a better performance than the rest, and that would be the base case for our strategy going forward.



[00:41:28.870] - Pere Viñolas

Number two, we will be positioned to serve evolving client needs through urban transformation. We are already creating value through the transformation of the assets we own, or we may buy. An obvious comment that I would like to make in this direction, this is not new for Colonial. We are a platform that we have been doing this for years.

[00:42:04.320] - Pere Viñolas

You cannot see in this slide, for example, when we transformed an office building into the Mandarin Hotel in Paris already some years ago. But you can see more recent examples of transformation of an office building in Louvre Saint-Honoré in the premium commercial, which are very good returns. Or more recently, in Madrid, the transformation of a new development of a newer and mixed-use campus with a combination of office and residential.

[00:42:43.590] - Pere Viñolas

If you look at the new projects that we are developing, they are either a transformation for a higher value remaining with an office use as the main component, but more abundant on more important, the urban transformation in the direction of new uses for our office buildings. Two examples here. Santa Hortensia, that it was pure office., it will be a combination of different uses.

[00:43:21.990] - Pere Viñolas

Another one, even more evident, Sancho de Ávila, which used to be an office building, the systems headquarters in Barcelona, as you can see in the picture, will be an important asset in the life science and healthcare environment. It will be a hospital that has already been pre-led. This will be a substantial source of value, as you can see in page 35, and with a different mix in terms of nature. As I say, more focused to urban transformation and mix-use, less dependent on office.

[00:44:00.680] - Pere Viñolas

On page 36, what we like to highlight is that this is not only about refilling the pipeline, which is important. As you know, in the past, we went through this, and we were quite successful through important projects that take certain time to deliver returns. It's also something that we do on the ordinary course of business with our platform, with our asset management expertise, providing rental growth and value extraction in a more ordinary activity.

[00:44:41.670] - Pere Viñolas

You can see here several examples. Some examples, by the way, are coming from the recent deal with Criteria, the office portfolio called Visionary Building that came from Criteria. It's one of the projects where we are now working in order to extract value. Another one is the leading portfolio that we are working on right now that is also coming from Criteria. Or let's put maybe one additional example. Haussmann St-Augustin in Paris. Fantastic location, fantastic building. Used to be a leased to WeWork. WeWork left with no pain on our side, I have to say, because of the conditions of the leasing agreement that we had in this particular case.

[00:45:38.190] - Pere Viñolas

What are we doing here? We're just launched through a renovation program with very limited Capex, €40 million. Our central expectation and this will allow rents to jump from €800 per square meter to €1,000 per square meter. Our expectations will be, once this is finished, we expect mid-25. This will be producing 2 million more than it used to produce. Compared to 40 million of Capex, this will be a very good return. This is the kind of nice things that we like to do and we will do.

[00:46:25.050] - Pere Viñolas

All in all, putting everything together, the overall consequence of this will be increased gross rental income, growing from €400 million to 565. This morning, someone was saying, it's not so long ago that we were in the 300 million figure, now we are in the 400, and soon we'll be in excess of 500. This is more likely the outlook. Value creation through transformation, not only office, other users included, and this will be our future.

[00:47:10.040] - Pere Viñolas

As a recap of everything I shared with you today, the last slide, slide 38 on a strategy and outlook, I think that we have shared with you today another strong set of financial results with good numbers and superior numbers in terms of like-for-like growth and cash flow from delivered projects.

[00:47:35.620] - Pere Viñolas

We show today, and this is new because the previous point has been the ordinary thing we share with you for the last four years so far, the second thing which is brand new is different moment of a cycle, prime properties showing a value stabilization, our numbers leading the market in terms of this value stabilization is another fundamental point of our presentation today. It was also evident that the group's expertise on the prime asset class has been delivering continuous outperformance on operations.

[00:48:22.860] - Pere Viñolas

The final two points is we are now very much focused on extracting value from the new project pipeline that will generate further organic cash flow and value growth. We will be paying a lot of attention to the real estate cycle and the current situation, which looks to be different from the one we saw six months or a year ago. My final comment would be in this framework of results that we shared today.

[00:49:04.020] - Pere Viñolas

Number one, we confirm the EPS guidance for 2024, range of 30 to 32. Maybe I would add an acceleration towards the upper range of that guidance, as you saw from the results. Second thing, divestments, you've seen that we are on track and ongoing. Maybe situation is changing a little bit. Three things have happened or are happening as we speak. Investment markets remain challenging across Europe, number one, but number two, hand in hand with a different view on valuation trends, so values are stabilizing. Number three, we just have gone through a significant transaction with an important equity injection.

[00:50:06.940] - Pere Viñolas

Everything together means that we'll be more fine-tuning our disposal program in the framework of the real estate cycle. That means that with the capacity to have a more flexible view to selling or buying in this new environment. Finally, growth profile, as you can see, remains strong. Significant reversion from prime properties, initiatives, unbalanced remain. This has been the presentation of results for today. Thank you very much for your attention. Now we are available for any question you may have. Thank you.

[00:50:56.050] - Moderator

Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please press star five on your telephone keypad. Thank you. Now we have the first question coming from Markus Kulesa. Please go ahead.

[00:51:18.560] - Markus Kulesa

Good evening, everyone. Thank you very much and congratulations for your results. I have three questions. I will start with the like-for-like rental income. I just wanted to go a little bit through it because I saw different numbers, plus 6%, plus 6.5%, and plus 4 on the net basis. Can you maybe tell me what's the difference between the 4% net and the 6% growth, and then on the net basis by city?

[00:51:52.420] - Pere Viñolas

Markus, go through the three questions first, or you would like to answer one after?

[00:52:01.190] - Markus Kulesa

Perfect. Second question is on the disposal, because I struggle to see this positive evaluation, how your LTV is going up. I saw on your financial statements, actually, 72 million disposals, not 152 million. I saw in front of it 56 million Capex, so more disposals than Capex. I don't know if these numbers are just accounting, but explaining why your LTV is going up by two percentage point before, of course, the transaction despite positive revaluations and apparently 152 million disposals, but just to check also how much are actually effective in H2.

[00:52:47.100] - Markus Kulesa

My last question is on the valuation of plus 0.7, this includes development revaluation, I suppose. Do you have a number without the impact of developments? Maybe a point would be for just a point on your yield, on that initial yield, which is going down and which looks a bit low, and especially, it's explained, but I have 7% rent call and 1% net asset revaluation. How come also the overall yield is stable and especially going down in Madrid and Barcelona?

[00:53:28.560] - Markus Kulesa

Thank you, Markus. Carlos will answer.

[00:53:30.750] - Carlos Krohmer

Growth rental income like-for-like 6.5%, we have here exactly the breakdown. This first half, we have a little bit of divergence between gross rental income and net rental income because of temporary elements on the Opex, but that will phase out during the year. You know that sometimes some of the Opex fall in the first part of the year and others in the second part of the year. This is the explanation on the like-for-like, so 6.5 and 4 in terms of net rental income.

[00:54:08.730] - Carlos Krohmer

On the valuation, I think there was a question regarding total portfolio and operational portfolio. Operational portfolio is quite similar to the total portfolio. It's a 0.3% positive like-for-like. A positive 1% in Paris is offsetting slightly negative in Madrid and Barcelona. Then we have on top what lifts this up to 1%, the progress on our project pipeline that has been quite substantial, so in total, the like-for-like is 1%.

[00:54:42.650] - Carlos Krohmer

In terms of our valuation, as we always want to very much highlight, the most important element in terms of cost of capital and discount rate is the cap rate, so it's the valuation yield. That is the yield that we show because the net initial yield is a spot data point at a specific date of the year and can be influenced also by temporary movements and does not give really a full comprehensive valuation view. In order to go more into the detail of this, I would then also suggest that we can do then a separate technical call also to guide you. It is very technical through the movement of the debt. This would be the answers on this.

[00:55:32.570] - Markus Kulesa

Thank you. On the LTV?

[00:55:35.620] - Carlos Krohmer

Yeah, on the LTV, we will guide you through.

[00:55:45.570] - Pere Viñolas

Carmina, step in.

[00:55:45.820] - Carmina Ganyet

On the LTV pre-transaction or pre-alpha X, be aware that the valuation, when you look at the gross asset value and the movement of the gross asset value, it's 11.2 billion from 11.3. It is slightly, in terms of like-for-like, is positive, but we have the impact of the disposal, impacted the gross asset value.

[00:56:07.640] - Carmina Ganyet

On the debt, we have been paying the dividend during this semester in June. It's 150 million dividends. We have generated EPS of 80 something million EPS. On the other side, we have some Capex. This is the movement in general terms of the debt. This is why the debt, the loan-to-value, moves before a transaction from 39.5 to 40.5. But after the capital increase and the transactions of Alpha X, it's 36.7.



[00:56:51.010] - Markus Kulesa

Okay, thank you very much, very clear.

[00:56:52.090] - Pere Viñolas

Thank you, Markus.

[00:56:54.360] - Operator

We move on now to the next question coming from Veronique Merkins. Please go ahead with your question.

[00:57:09.140] - Veronique Merkens

Hello all. Thank you very much for the presentation. For me, some questions around the fact that disposals in the investment market, because I just wanted to check with that last comment, Vero, you mentioned about finding the real estate cycle that it automatically means that the 500 million disposal target that you initially had for this year is not as set in stone as it was before.

[00:57:31.790] - Veronique Merkens

Also, me questioning, how confident are you indeed that values are bottoming out if the investment market is still that shut down? If it's not, isn't this the time to also sell a larger Paris office to show the investors in the market that values are indeed where the traders are valuing them at the moment, and to additionally improve your balance sheet a little bit?

[00:57:55.770] - Pere Viñolas

Yes. Thank you. Look, Veronique, on the disposal, I think it's true that we will be maybe more selective. As I said, I think that three things have happened or are happening. The market remains very challenging, as you are saying. This is number one. But number two, valuations are stabilizing, and I may come back to this point again. Third, we've been going through a transaction that has meant a significant increase in the equity and a significant deleveraging.

[00:58:42.310] - Pere Viñolas

When assessing disposing of assets, I think that we have to carefully assess, as a company, the pros and cons of the theoretical rerating of a lower LTV on the one hand, on the other, the dilutive impact that this may have on the earnings per share of the company. I remember some years ago, after selling a year later, I would ask where the earnings were. We have to carefully assess both things. Looking at the general evolution of the market, I think that we simply have to be more selective. We remain very much inclined to disposing of assets in good terms, but with a revised view of where the market is.

[00:59:50.850] - Pere Viñolas

You say, "Well, it's always good to sell and show the market that you're selling at a premium." I agree. We've been doing this in the last two years. We sold €700 million at an equivalent of maybe €9 or €10 or €11. Probably to have the market, probably it didn't have so much. It's true that it's a good thing to do. But as I said, we have to balance with other things.

[01:00:22.210] - Pere Viñolas

I think it remains a good thing to do, the disposal programme. It will remain a priority for us, but we also have to be, let's say, selective based on current market conditions.

[01:00:36.970] - Veronique Merkens

Okay, that's good. I think my point is more that for me, I feel that the biggest concerns for investors around Colonial are still the leverage. I understand you always said that, obviously, with the quality of the portfolio, the leverage can be higher, but it's still relative to peers, a lot higher, and the other concern is the valuations, or at least the still low yields. I think you would go two birds with one stone if you were able to sell a prime office bearish.

[01:01:09.340] - Pere Viñolas

Yeah, I think that I understand that it's sensitivity about that. You know also that we are taking into consideration many other things, so you are comparing the yield of an asset with cost of the debt. We look at the IRR of any existing asset with the cost of the debt. It's diluted for the value of shareholders when you are disposing of an asset, which an expectation of a leveraged return of 6% or 7%.



[01:01:40.580] - Pere Viñolas

I understand that it's a positive signaling from the market, but it's not obvious that you are creating value for the shareholder, most of all in the mid to long term. I understand that in the short term, there's sensitivity about that, but you have to take decisions thinking on where the market will be two, three, four years from now.

[01:02:04.680] - Pere Viñolas

For example, if the market changes, then suddenly the view on leverage will be totally different, but the asset won't be there any more. I think that we take a number of considerations. We believe that our leverage is quite robust in terms of solvency. For example, the cost of debt that we have, I think it should be also a factor in this kind of analysis.

[01:02:31.130] - Pere Viñolas

Putting everything together, I would say I'm not disagreeing with you. I know we have proven that we are very much aligned with being, let's say, strict with capital structure, discipline, and take advantage of the market if the market is there. Then we are not changing fundamentally this policy, this strategy. Maybe I only changing or refining or fine-tuning maybe how we are looking at the market now because it's not exactly the same that a few months ago. That would be all.

[01:03:14.999] - Veronique Merkens

Okay, that's very clear. Thank you so much.

[01:03:18.820] - Moderator

Thank you, Eric. Okay, now we move on to the next question coming from Celine Su. Please go ahead with your question.

[01:03:32.640] - Celine Su

Hi, good evening. I got three questions, if I may, please. The first one is on the WeWork surrender premium. Do you know how much it is and whether that will be included into your recurring earnings for this year? My second question is on the Madrid valuation. It seems like that portfolio corrected the least from the crisis, less than Paris. How do you justify this? And my last question would be on the change in your covenant in your bonds, whether you can explain why you've done this. Thank you.

[01:04:08.740] - Pere Viñolas

Thank you, Celine. I will provide maybe part of the answer and maybe Carlos or Carmina can step in. Your first question was about WeWork. In the case of WeWork, we explained that both in Paris and in Madrid, when we reach an agreement with WeWork for an excellent place, the conditions of the agreement that we did were very strong. So there were strong guarantees that we're preserving our position in case that we were about to terminate the contract. In the case of WeWork, friends, the level of the guarantees and the conditions of termination of contract with WeWork have meant no downside for the cash flows of the company during 2024.

[01:05:13.790] - Pere Viñolas

The second part of the story, as I explained before, sometimes the landlord is the first one which is interested in terminating a certain agreement because we realise that there's a significant upside if we can move to the next page and go to a different project with a lot of potential in terms of upside in rent. That was the second part of the story. We thought that those were very good news. If we could, number one, terminate the contract, which WeWork with no pain or no downside, and number two, and enter into a potential value creation that was relevant.

[01:05:57.990] - Pere Viñolas

Your second question was that Madrid maybe showed less correction than Paris, and if there was any reason for that. I think that the main answer for that has been that the average asset value, the average size of an asset in Spain, as opposed to France, is much lower. That has meant that this market was much more appealing for a significant segment of the market that has been very active, which is transactions which have been done mainly by family offices interested in this segment.

[01:06:53.400] - Pere Viñolas

As a consequence of that, we've seen in Madrid a huge amount of volume of transactional evidence, the one that I was mentioning before. We've done almost 700 million of transactions in Madrid at a premium to NAV, at a significant premium to NAV. I think that this transactional evidence is the one that explains the different behaviour in valuations.

[01:07:25.860] - Pere Viñolas

Maybe I didn't mention that before. I was about to mention that when Veronique was asking his question about the absence of transactions today. It's true that when you evaluate the current situation, you can come to conclusions on values, depending, number one, on transactional evidence, and number two, on the fundamentals.

[01:07:56.280] - Pere Viñolas

On transactional evidence, it's true that in France, we have some evidence, but not as big as in Spain. But in any case, when you remain with the fundamentals, I think that as time goes by, it happens what it happens, which is a yield correction is a one-off that happens one day. Then you come to the other part of the equation, which is rental growth. That is there one year and another year and another year and another year. That has an impact in the net present value of discounted cash flows of the assets.

[01:08:35.610] - Pere Viñolas

This is what generates the view of the appraisal companies and market players that the most potential, the better assessment you can have of value is the kind of values that we already have. Let's not forget that the capital value per committer that we've seen in the latest market transactions.

[01:09:04.940] - Pere Viñolas

But coming back to your question, the different performance of Madrid versus Paris, it's the transaction evidence that it's remarkably higher in the last 18 months in Madrid than in Paris. Sorry, I forgot your third question. I don't know if you remember.

[01:09:25.300] - Carlos Krohmer

Change in covenant.

[01:09:28.460] - Pere Viñolas

The change in covenant on the bonds.

[01:09:30.530] - Carmina Ganyet

Yes. You know that today it was finished, the consultation request from changing or adapting the covenant. Basically, we have been adapted the definition of the covenant in line with the revolving lines we have as well with the financial institution, in line with the benchmark, and in line with the situation we have today, which is 98% of a company of SFL. Because in the historical definition, it was more on a definition based on different subsidiaries, not on control of these subsidiaries.

[01:10:11.300] - Carmina Ganyet

Today, with the fact that we have 98% of SFL, we understood that the definition would be more aligned in the best practice and the benchmark and according the existing situation of Colonial.

By the way, today, we have been closed this process with a satisfactory and positive feedback from the debt investors, supporting and approving the new definition of the bonds, the covenants.

[01:10:38.960] - Carmina Ganyet

It's only for two reference the remaining bonds, they are not having any covenants. These covenants only are referring for two reference that we have in the bond market.

[01:10:51.790] - Celine Su

Okay, thank you. Carmina, can I follow up on the WeWork question here? Am I right to assume that there is a certain premium that will be into your recurring earnings in H2 since WeWork has stopped paying at the end of June?

[01:11:07.780] - Carmina Ganyet

Well, yeah, the full impact has been booked in the first semester. Because it has been, as Pere mentioned, offsetting the impact because of the bond guarantees. But it's true that now we don't have any additional income from WeWork in the second half of the year.

[01:11:34.430] - Celine Su

Oh, I see. There is a one off into your top line, so we can't annualise your EPS. It's not going to be above the guidance, basically.

[01:11:45.900] - Carmina Ganyet

No, it cannot be annualised. Yeah, you're right. It cannot be this annualised in the second part of the year.

[01:11:54.470] - Celine Su

Thank you so much.

[01:11:57.450] - Moderator

Now we have a final question from an unidentified person. I will give you the floor, but first, please state your name and also the name of your company. Please go ahead.

[01:12:14.230] - Adam Shapton

Hello. It's Adam Shapton from Green Street here. Sorry that I was unidentified. Just one quick one. Quite a few of my questions have been answered. Just on Magnum, you talk about good leasing momentum, 25 % heads of terms and lots and lots of interest. Can you give us a sense of how quickly you think it will lease up in the second half? Can we expect close to 100% by the

end of the year in terms of at least heads of terms? How speed do you think the lease up can be from here, given your visibility on the good interest that you have?

[01:12:58.700] - Carlos Krohmer

Well, we've never given, I think it's impossible, to give a specific guidance of how many square meters we're going to lease in the second half and when we're going to get to 100% occupancy because at the end it's a daily business and what happens. But I think a good way to extrapolate this is what you see in terms of the facture figures. You see 20,000 square meters in the first quarter, 46,000 square meters in the second quarter, top product.

[01:13:37.130] - Carlos Krohmer

In terms of leasing activity, there's not so much left to be done. Then we will be delivering throughout the second half, the Méndez Álvaro urban campus, and there we will then see how everything progresses. We are having a lot of interest.

[01:14:00.600] - Carlos Krohmer

I think what you have seen is that these two quarters, especially second quarter, has been strong, has been better the previous quarter, has been better in terms of pricing than previous years, so we remain confident to give a specific number of square meters when there's almost no square meters to be led, and then a very specific file that is then very singular, that is the Méndez Álvaro, that depends on very specific, no optimisation of deals.

[01:14:31.620] - Carlos Krohmer

It's not really possible, but we remain with very good momentum and with confidence because we are seeing, fifth year in a row, that everything is going very strong, so we think we will also come back on Q3 with good performance on operations. But to specifically say, it's difficult.

[01:14:58.920] - Pere Viñolas

We never know at 100%, because always there are things happening, specific news, up or down. I would be glad not to see for the next 15 years that we are above 95% as we are today. But yes, I would like to emphasise that also the other things that are new projects coming that we have to work on. The most obvious one is Magnum.

[01:15:26.500] - Pere Viñolas

Magnum will be impacting the figures of the second half. Magnum is going well. Magnum, we have already head of terms of 25% of the square meters that have been already signed. But even

if it's going well, this will impact the occupancy numbers on the second half in relative terms or in terms of occupancy. In terms of rental growth, it will be fantastic news, of course.

[01:15:53.380] - Adam Shapton

Great. Okay, very clear. Thank you.

[01:15:58.150] - Carlos Krohmer

Thank you.

[01:15:57.900] - Moderator

Okay, I see there are no further questions. Therefore, I give back the floor to Mr. Pere Viñolas. Please go ahead.

[01:16:18.140] - Pere Viñolas

No, just a few words to thank all of you for the attention today, and also for the questions that we appreciate a lot. I wish you, if some of you have not still gone through vacation, a very good rest in August, and a very good end of the day for everyone. Thank you.