

Colonial



Colonial – Investor Day  
CORPORATE STRATEGY

*Mr. Pere Viñolas*

*Chief Executive Officer*



MSCI 

European Property  
Investment Awards  
WINNER 2017

IBEX<sub>35</sub>



Barcelona 17/10/17

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- 01 Introduction
- 02 Solid delivery on Strategy
- 03 A resilient Business Model
- 04 Superior returns through Alpha
- 05 Future value creation
- 06 Conclusion





## GUIDANCE

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- 1 Profit & Loss Top Line: 2017E GRI > €279m**
- 2 Ongoing organic growth focused on high quality offices**
  - > Acquisitions of €300m per annum
  - > Prioritize value add opportunities
  - > Disposals of mature assets
- 3 Growth strategy with moderate dividend yield**
  - > 2-2.5 % Dividend Yield
  - > Redeploy capital on growth opportunities
- 4 Strong commitment to solid capital structure**

## 02 Solid delivery on Strategy



Outperformance on communicated targets

**Strong delivery on strategic goals**

- > Operations with outperformance on every KPI
- > Smart capital allocation maintaining investment discipline
- > Firm commitment to solid capital structure

**WHAT WE PROMISED.....**

Investor Day 2016

> Consolidating stabilized structural vacancy

> Rental price increases

> Acquisition of new value added

> Value creation through capital structure

**..... HAS BEEN DELIVERED**

2017 YTD

- ✓ Stabilized vacancy levels in all segments
- ✓ Vacancy clearly beating market average & peers

- ✓ Highest rental growth vs market
- ✓ High double digit release spreads

- ✓ Project Alpha II: close to €400m of prime projects
- ✓ More than 136,000 sqm of project pipeline
- ✓ Disposal of mature core assets with premium

- ✓ Rating upgrade: BBB S&P / Baa2 Moody's with stable outlook
- ✓ Lowest LTV among peers
- ✓ Highly successful ABB
- ✓ Adoption of Socimi status
- ✓ IBEX 35 inclusion

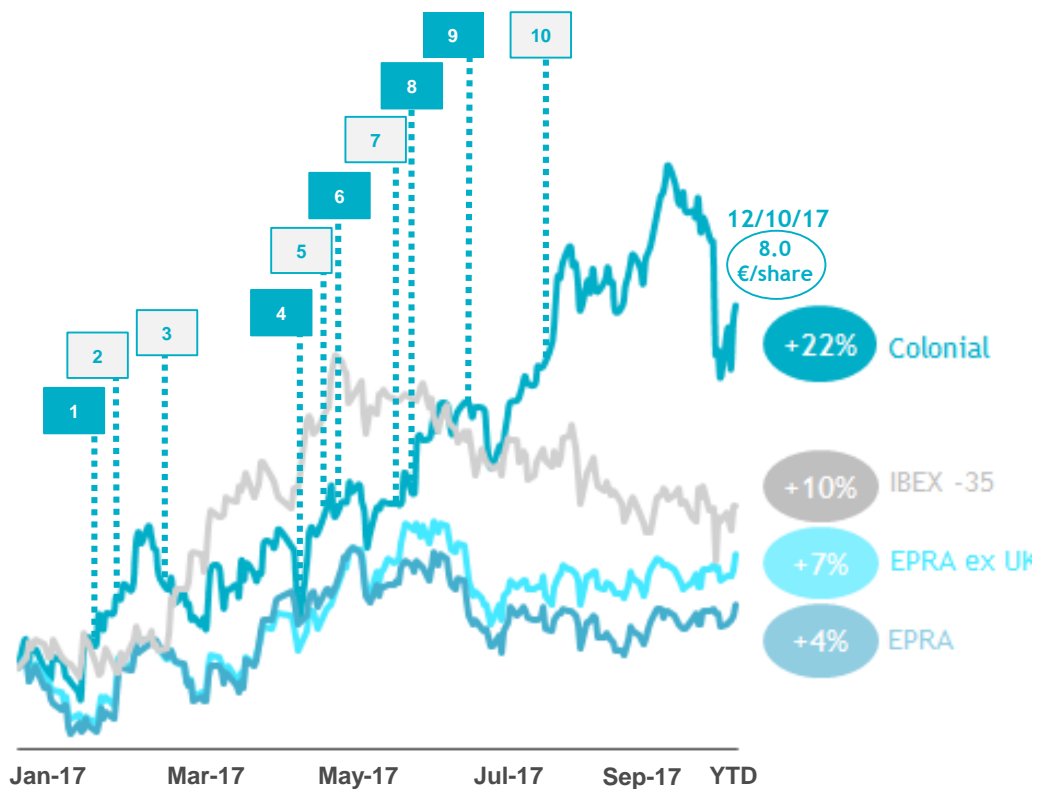
### Strong share price performance

- > Capital markets recognize solid delivery of the group
- > Colonial shares offer a “flight to quality play”
- > Prime positioning with attractive risk adjusted returns

#### SOLID DELIVERY.....

- 1 Alpha II
- 2 2016 Results SFL
- 3 2016 Results Colonial
- 4 Rating upgrade S&P
- 5 1Q 2017 Results Colonial
- 6 Capital Increase
- 7 Socimi announcement
- 8 IBEX35 Inclusion
- 9 AGM – Socimi approval
- 10 1H 2017 Results Colonial

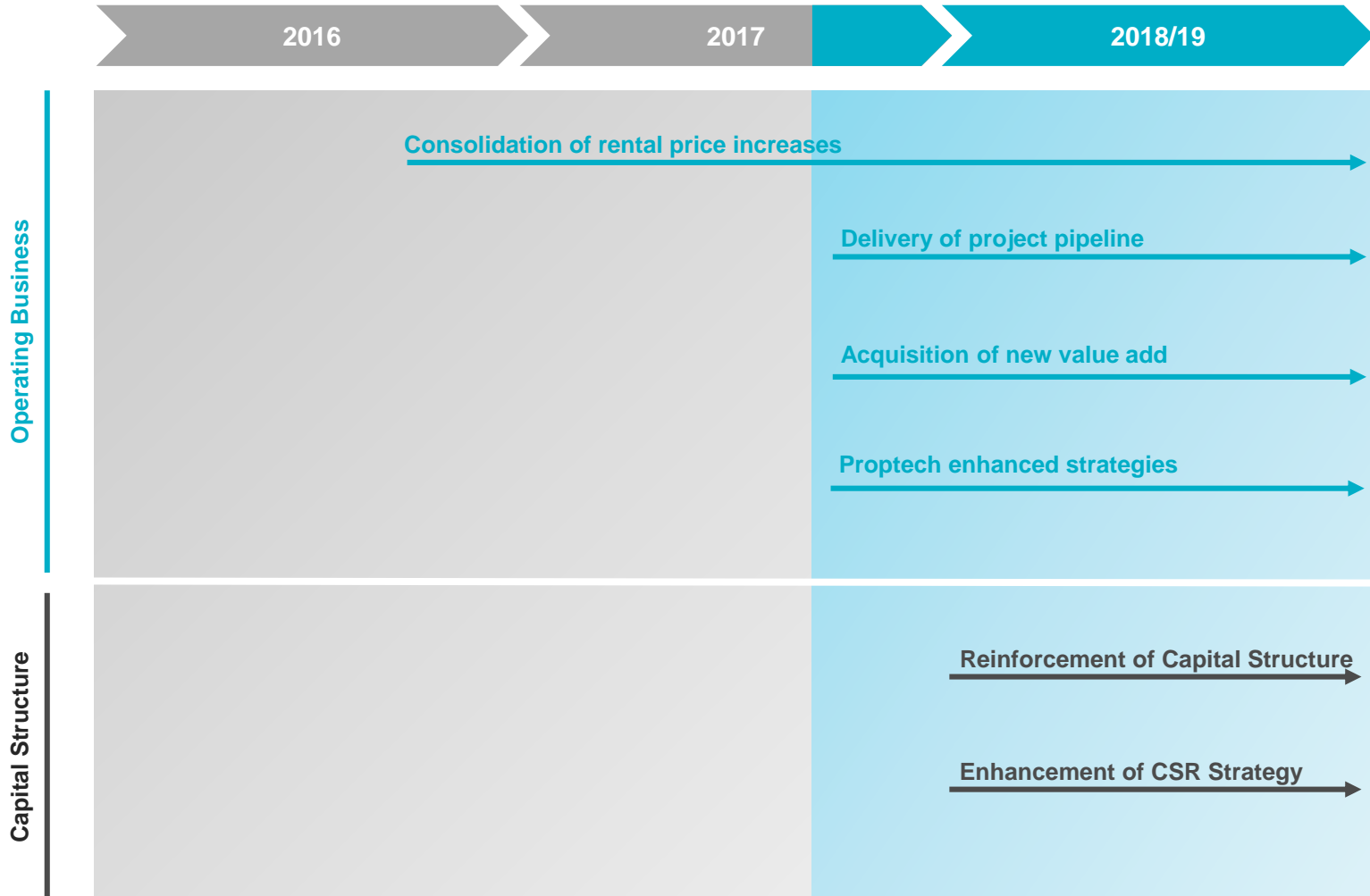
#### ..... RECOGNISED BY CAPITAL MARKETS





**A focussed growth strategy that prioritizes quality**

- > Unlocking value from current project pipeline
- > Rental price increases driving future capital value growth
- > Acquisition programme with investment discipline





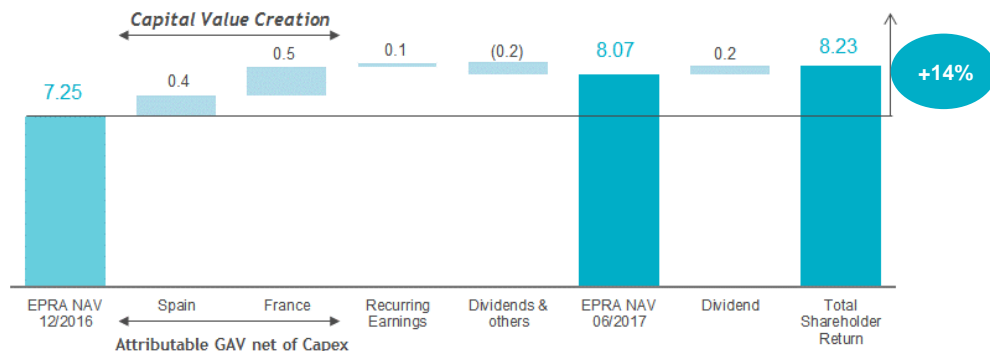
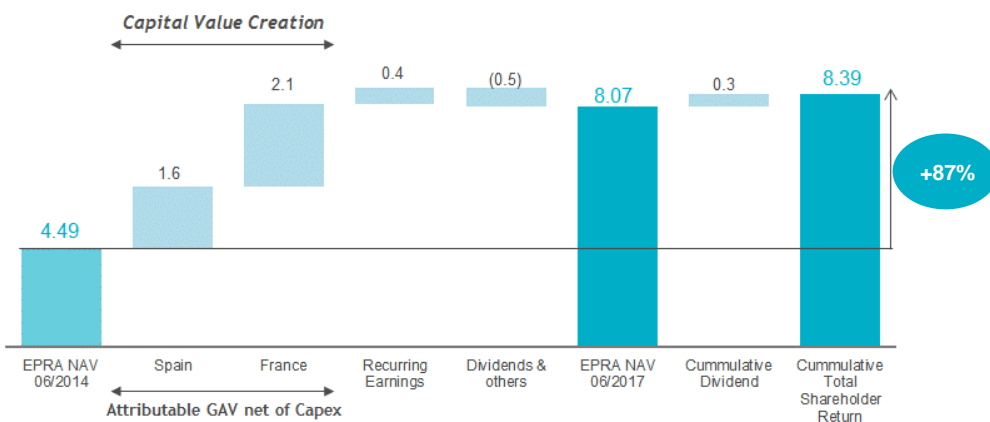
Colonial’s Business Profile delivers superior Risk Adjusted Returns

**A resilient business model with very attractive returns**

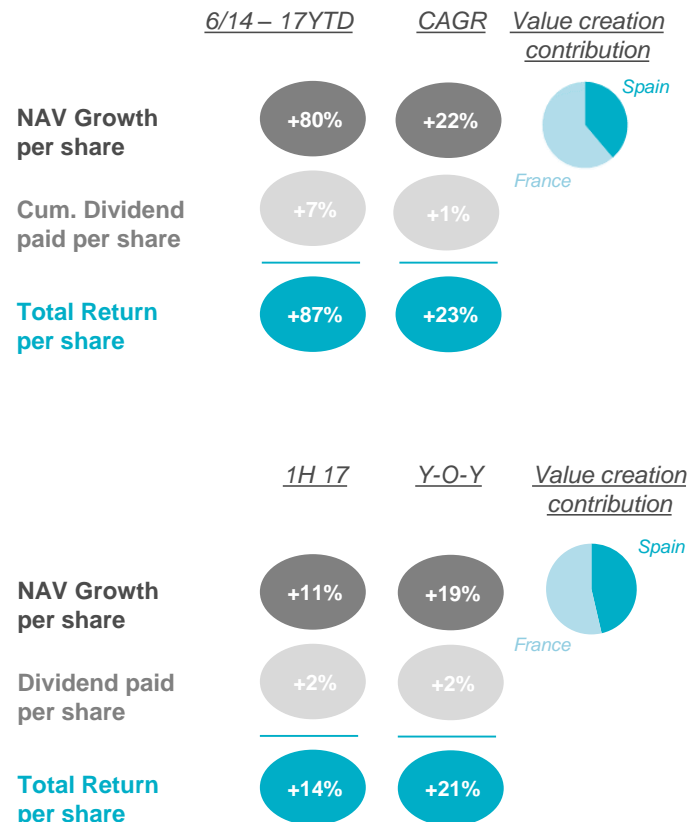
- > Highest Total Shareholder Return since the recap of the Spanish REIT sector
- > Significant value creation contribution from Paris operations
- > Long term sustainable returns based on high “Alpha” component

**STRONG MOMENTUM IN NAV GROWTH**

€/share



**TOTAL SHAREHOLDER RETURN**



Total Shareholder Return= NAV growth + dividends

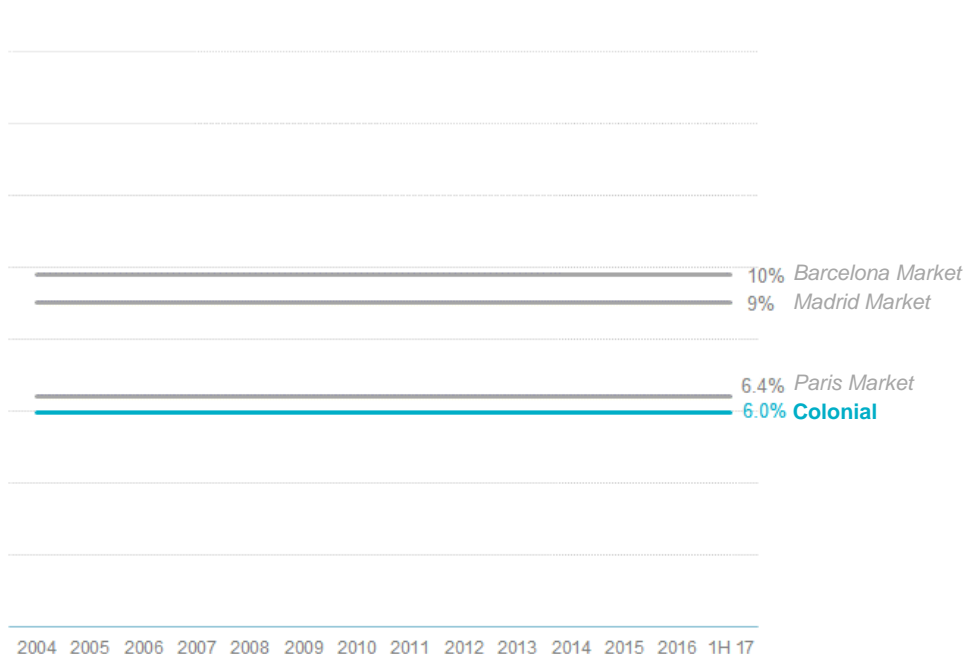
Colonial's Business Profile provides resilience

**A diversified office portfolio focused on prime offers ...**

- > Stable vacancy levels throughout the real estate cycle
- > An attractive combination of exposure to Paris with an opportunistic Spanish play
- > Solid long term risk adjusted returns

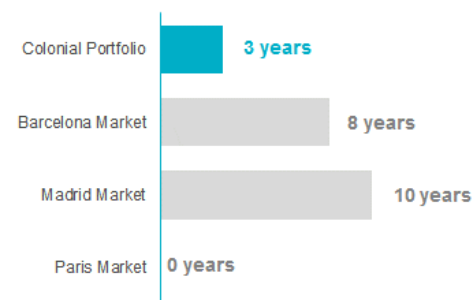
**A LONG TERM RESILIENT VACANCY PROFILE ...**

Average 2004-2017 Vacancy



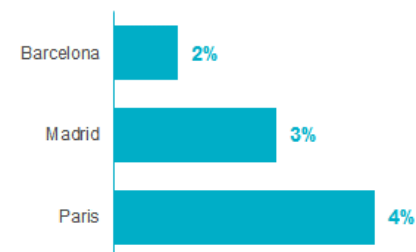
**... WITH DOWNSIDE PROTECTION**

Years with vacancy > 8%



**... BEATING THE MARKET**

Current Colonial Vacancy per segment



Barcelona portfolio with strong fundamentals

**Barcelona exposure offers strong risk adjusted returns**

- > Barcelona outperforming on all operating KPIs reaching “full occupancy”
- > Portfolio with highest rental price increases in the Group
- > Downside risk of short term maturities irrelevant

**MAIN KPI'S 1H PERFORMANCE BARCELONA**

	<u>1Q 17</u>	<u>2Q 17</u>
EPRA Vacancy	3%	2%
# contracts	13	8
Release Spread	+19%	+18%
Max ERV (€/sqm/month)	23.5	23.5

**MAIN TENANTS BARCELONA - MATURITY NEXT 18 MONTHS**

<u>Tenant</u>	<u>% on Group GRI<sup>1</sup></u>	
	<u>2017</u>	<u>2018</u>
Ajuntament de Barcelona		0.8%
Caixabank		0.8%
Sabadell Information System		0.3%
Accenture	0.05%	0.2%
Schibsted		0.1%
Konecta BTO		0.1%
Everis BPO		0.1%
Omega Pharma	0.1%	
Astrazeneca		0.1%
Meteocat		0.1%
<b>Total Portfolio</b>	<b>0.6%</b>	<b>4.7%</b>

<sup>1</sup> Topped-Up Group GRI as of June 2017

04 Superior returns through Alpha



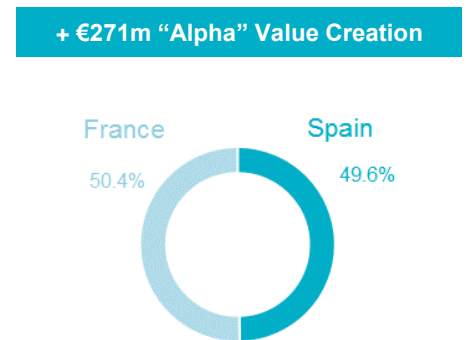
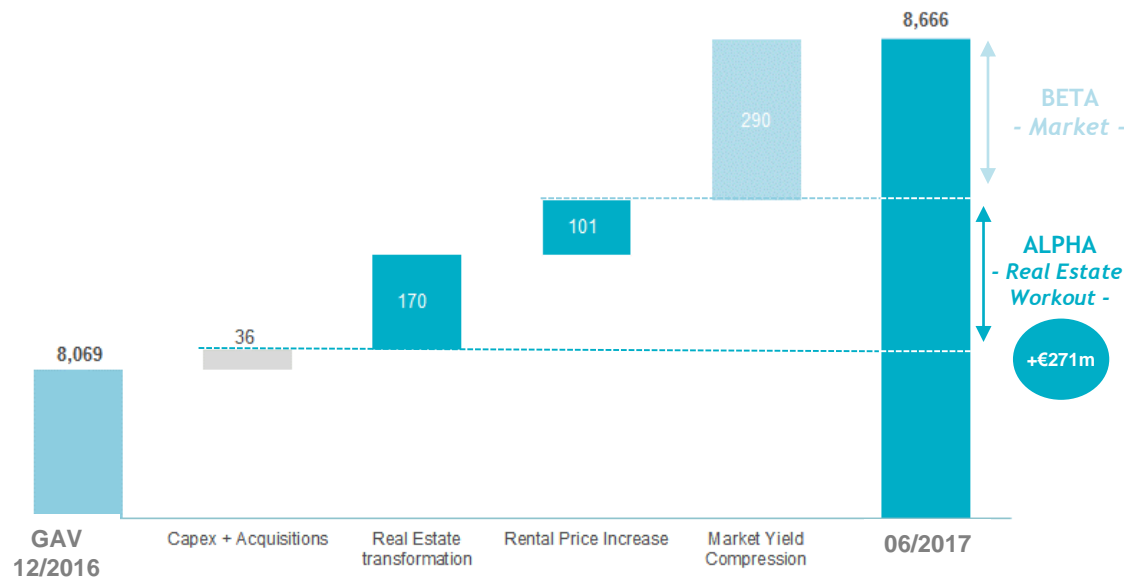
**04 Superior returns through Alpha**  
 “Alpha” strategies as significant driver in value creation

**Capital value creation of +€600m in 6 months driven by**

- 1** Real Estate transformation (“Alpha”)
- 2** Rental price increases (“Alpha”)
- 3** Catching up with market pricing (“Beta” – yield compression)

**CAPITAL VALUE CREATION – 6 MONTHS 2017**

**ALPHA VALUE CREATION**



1 Real Estate Transformation (“Alpha”)

More than +31 €cts NAV per share in 6 months through real estate transformation

- > Delivery of Prime Factory Projects and value enhancing capex programs
- > Selling mature assets at their peak with significant premiums
- > France as relevant source for “Alpha” returns

VALUE DRIVER

CAPITAL VALUE GROWTH

NAV PER SHARE IMPACT

PROJECT & VALUE ADDED

FRANCE			
	SPAIN		

VALUE CREATION FRANCE

+€106m

VALUE CREATION SPAIN

+€64m

- > Projects and Capex programs unlock real estate value
- > Disposals of mature assets create value
- > €170m value creation
- > €121m attributable value creation

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+31€cts per share



## 04 Superior returns through Alpha

### 1 Real Estate Transformation (“Alpha”)

More than +31 €cts NAV per share in 6 months through real estate transformation

- > Delivery of Prime Factory Projects and value enhancing capex programs
- > Selling mature assets at their peak with significant premiums
- > France as relevant source for “Alpha” returns

FRANCE

Cézanne S. Honoré



Washington Plaza



Percler



In&Out



Ungeared IRR<sup>1</sup>

>> 9%

GAV growth  
6 months

+10%

SPAIN

DAU



Santa Engracia



Berlin Numancia



Via Augusta



Ungeared IRR<sup>1</sup>

>> 17%

GAV growth  
6 months

+12%

<sup>1</sup> Ungeared IRRs since start of project/ capex programme

2 Rental price increases (“Alpha”)

Rental price increases as driver for capital value growth

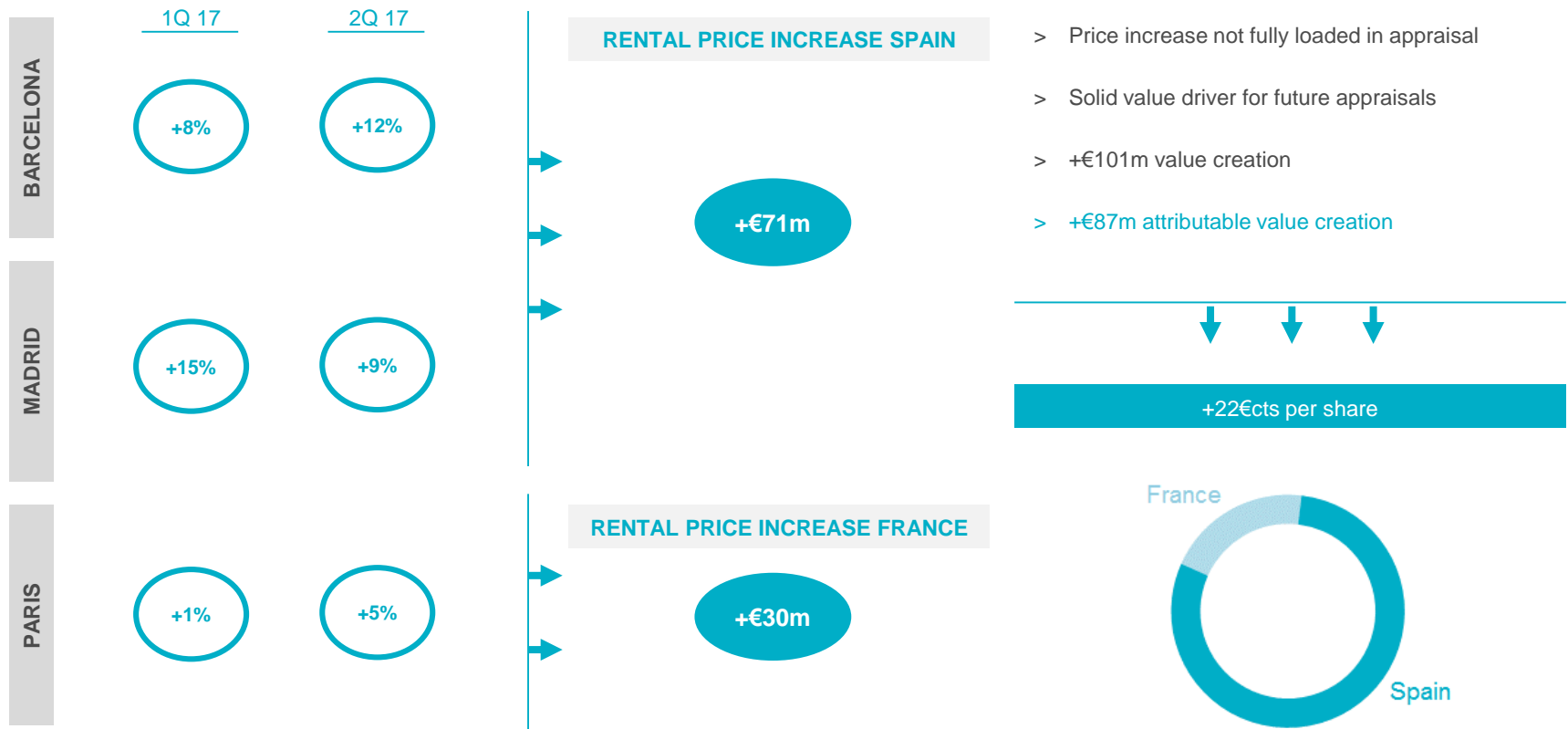
- > First half 2017 impact of +22 €cts in Net Asset Value per share
- > Full impact of YTD achieved rental price increase not yet reflected in June 2017 appraisal
- > Ongoing delivery on rental prices as solid base for future growth

VALUE DRIVER

CAPITAL VALUE GROWTH

NAV PER SHARE IMPACT

Rents vs 12/16 ERV



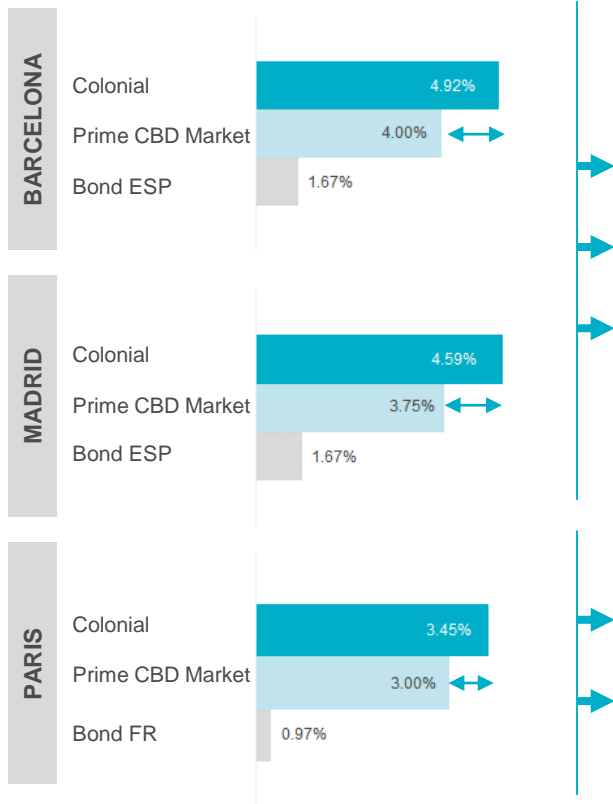
3 Catching up with market pricing (“Beta” – yield compression)

Significant room for mark to market of prime portfolio

- > Increasing demand for high end core prime assets
- > Recent disposals prove prudent valuation level of current appraisals

VALUE DRIVER

Valuation Yields 1H 2017

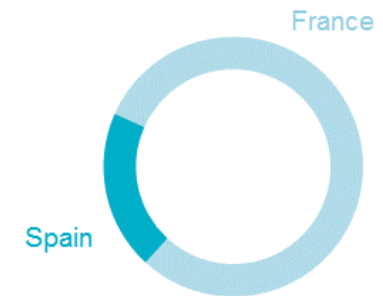
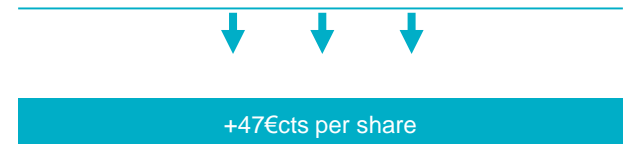


CAPITAL VALUE GROWTH



NAV PER SHARE IMPACT

- > Mark to market potential of current appraisals proven with high premiums on recent disposals
- > + €290m value creation
- > + €184m attributable value creation



## 04 Superior returns through Alpha

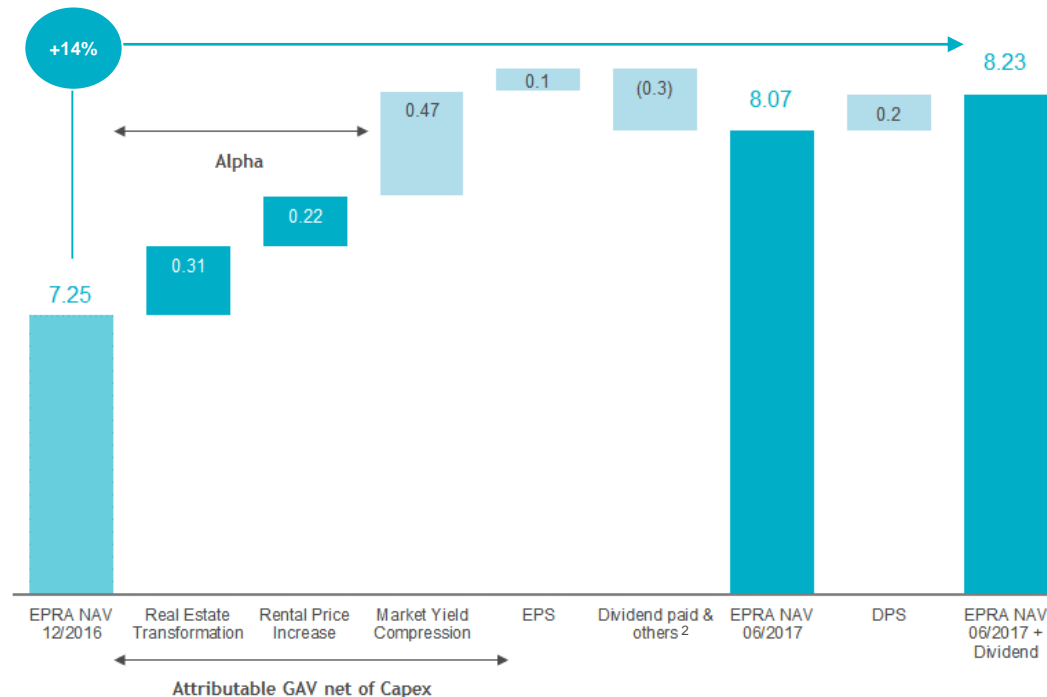
### “Alpha” strategies as significant driver in value creation

#### 14% Total Shareholder Return 2017 (6 months) relies on “Alpha”

- > More than half of the NAV growth per share through “Alpha” strategies
- > High double digit shareholder return with one of the lowest LTVs among peers
- > “Alpha” strategies as solid base for long term sustainable returns

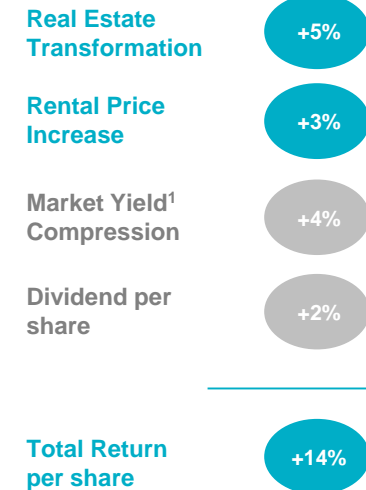
#### TOTAL SHAREHOLDER RETURN

€/share

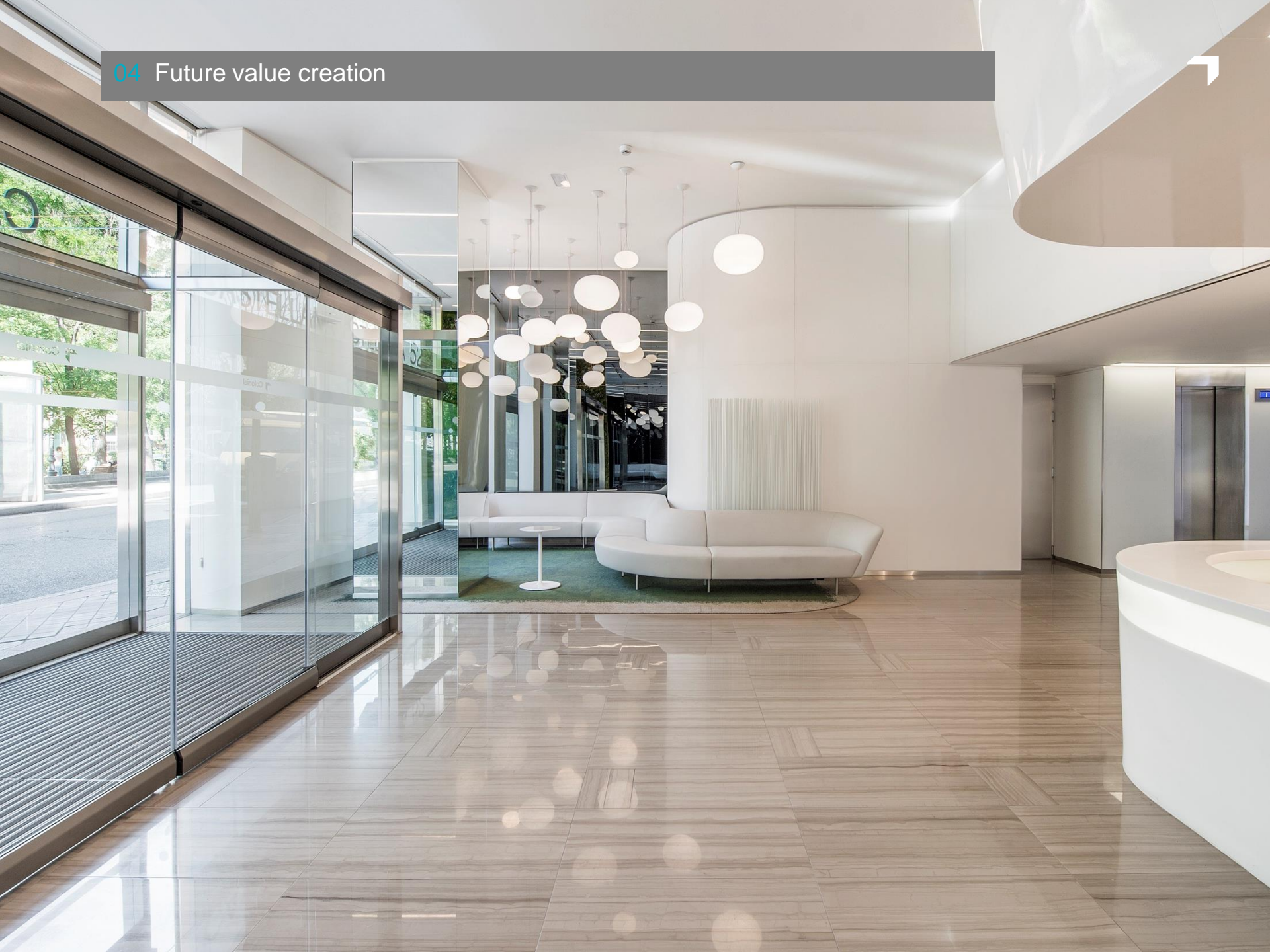


#### TOTAL SHAREHOLDER PER SHARE

6 months



1) Net of other impacts  
 2) Includes SFL dividend payment to SFL partners in France



## Future value creation based on 5 pillars for growth

### FUTURE VALUE CREATION

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- 1 Project pipeline and value-add programme
- 2 Capturing rental price increases
- 3 Catching up with market values
- 4 Acquisitions & Disposals
- 5 Proptech enhanced strategies

1 Project pipeline and value-add programme

A very attractive Project pipeline

- > Significant amount of additional rental income for the coming years
- > Additional value creation through created yield compression
- > Top product at optional market timing

PROJECTS AND REFURBISHMENTS

	GLA <sup>1</sup>
Discovery Building	10,152
Príncipe de Vergara, 112	11,368
Parc Glòries	24,551
Louvre Saint Honoré	16,000
Plaza Europa, 34	14,306
112 – 122 Avenue Emile Zola	20,340
lena	7,379
Castellana, 43	5,998
92 Champs Elysées	3,381
Cezanne Saint Honoré	1,544
Castellana, 163	10,910
Parc Central 22@	14,737
Other Areas	3,225
<b>Total</b>	<b>143,892</b>
<b>Capex program €m</b>	<b>€295m<sup>4</sup></b>

2017 YTD



Cézanne St. H.



Castellana 43



Champs Elysees 92

2017-18



P. Vergara 112



E. Calderón 3-5



Parc Glories

2019 - 22



Castellana 163



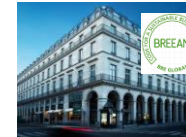
Emile Zola 112-122



lena



Plz. Europa 34



Louvre Saint Honoré

Additional Gross Rental Income €20m<sup>2</sup>

Yield on cost Spain > 7% → Final Product

Additional Gross Rental Income €32m<sup>3</sup>

Yield on cost Spain > 7% → Final Product

Yield on cost France > 6% → Final Product

Created rental uplift & created yield compression

Prime product to capture market recovery

<sup>(1)</sup> GLA above ground

<sup>(2)</sup> Figures as of 06/17 considering only marginal rental increases to passing rents on partial surface repositioning (Washington Plaza & Cézanne SH)

<sup>(3)</sup> Figures as of 06/17 excluding development of Parc Central, marginal rental increases to passing rents on partial surface repositioning of Castellana 163. Not including impact of Léna project (currently in initial study phase)

<sup>(4)</sup> Excluding Parc Central development and Léna (Léna currently in operation and project in initial study phase)

1 Project pipeline and value-add programme

Creation of unique landmarks through projects

*Discovery*



*Príncipe de Vergara*



*Parc Glories*



IRR<sup>1</sup>  
>> 10%

GLA  
46,000 sqm

*Castellana 163*



*Plaza Europa 34*



IRR<sup>1</sup>  
>> 9%

GLA  
25,000 sqm

*Emile Zola*



*Louvre St.Honoré*

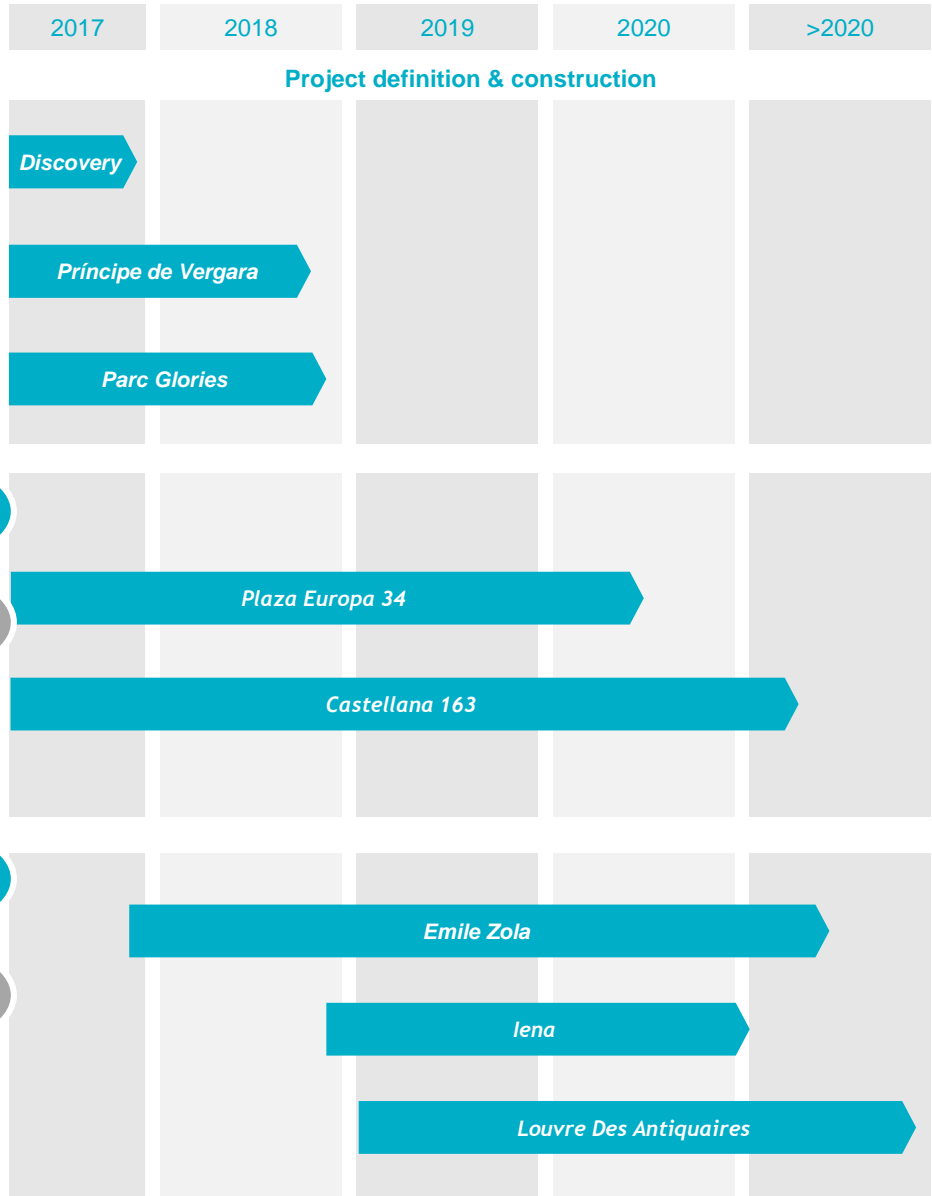


*lena*



IRR<sup>1</sup>  
>> 7%

GLA  
c. 44,000 sqm



<sup>1</sup> Ungeared 10Y IRRs

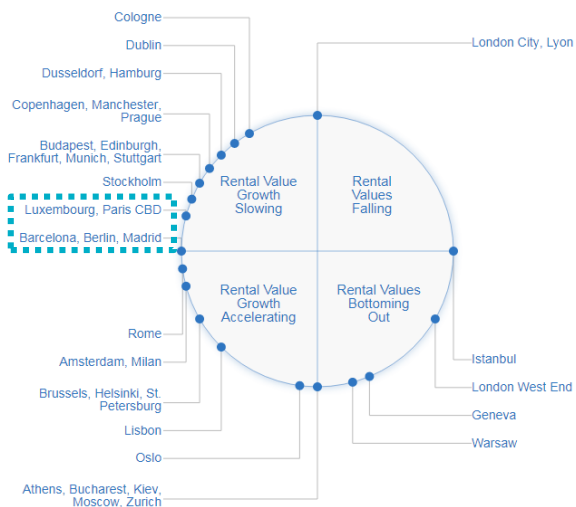


2 Capturing reversion of current portfolio on track

Colonial well positioned to capture rental growth

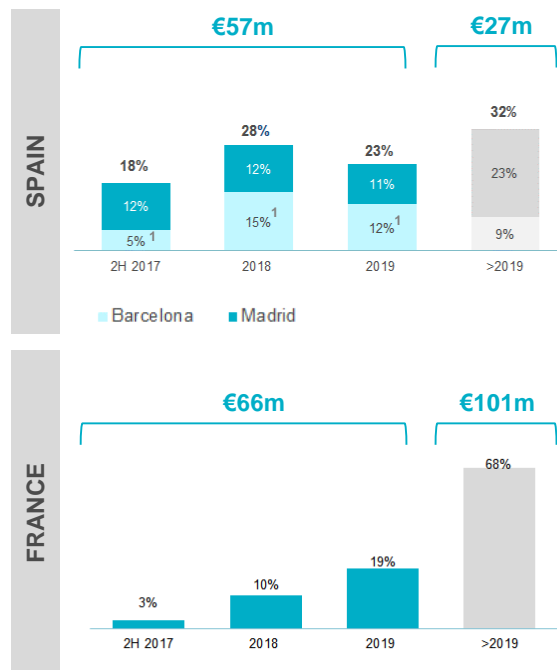
- > Portfolio with prime exposure to attractive growth markets
- > Attractive rent roll profile with solid momentum on leasing
- > Double digit release spreads capturing reversion from under-rented contract portfolio

SOLID POSITIONING IN GROWING MARKETS



COMMERCIAL LEASE EXPIRY DATES

First potential exit as of 06/17



CONTRACT PORTFOLIO 06/17

	Market rents vs current passing rents	Release Spread <sup>2</sup>
BARCELONA	+12%	+19%
MADRID	+7%	+12%
PARIS	+4%	flat

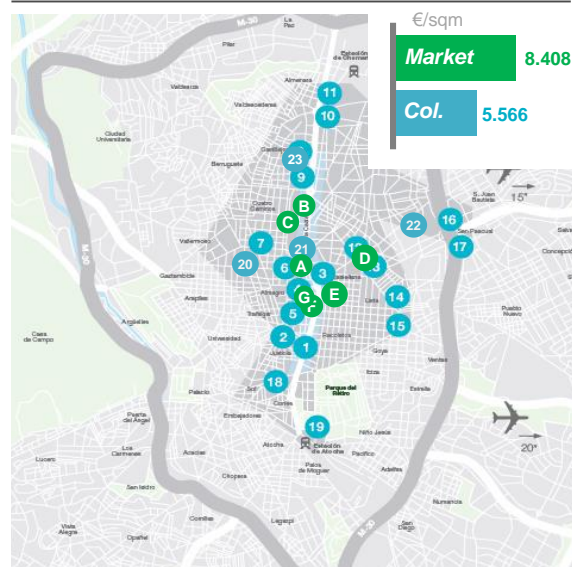
Source: JLL Q2 2017 data  
 1) As of 9/17: 2017 2%, 2018 15%, 2019 12%  
 2) New rent vs previous 1H 2017

3 Catching-up with market values

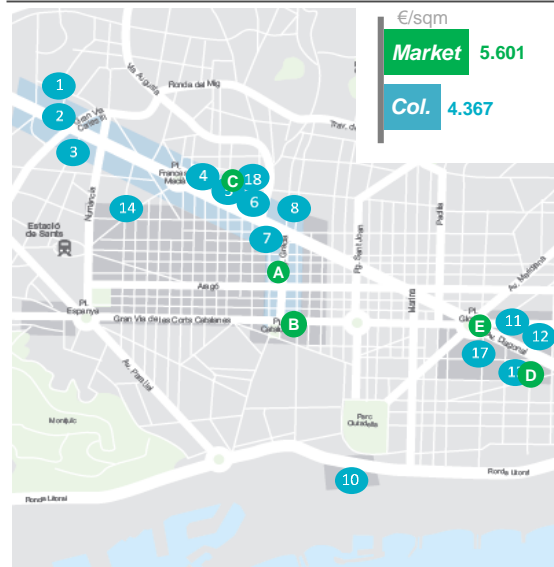
Investor interest for prime product remains strong

- > Significant capital value increases in recent quarters
- > Colonial's assets with prudent appraisal values
- > Premiums on recent disposals highlight room for mark to market catch-up

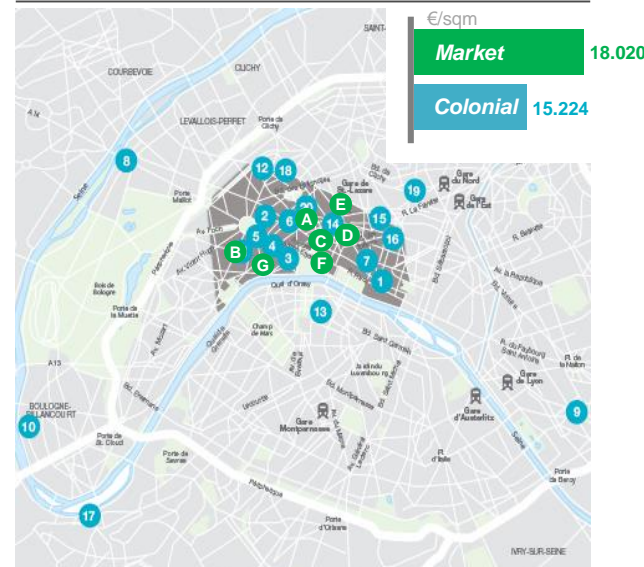
Madrid City Center (inside M30)



Barcelona City Center



Paris CBD



Latest investment transactions inside M30

	Price <sup>(2)</sup>	Cap. Value <sup>(3)</sup>
A Plaza de Colón, 1 <sup>(1)</sup>	58	14,834
B Paseo de Recoletos, 5	33	9,863
C Gran Vía 18	44	9,430
D Suero de Quiñones 42	38	8,209
E Alcalá 17	23	7,667
F Fernando el Santo 20	20	6,839
G Miguel Ángel, 23 <sup>(1)</sup>	53	6,675
<b>CBD Transactions - Average</b>	<b>269</b>	<b>8,408</b>
<b>Colonial Average (06/17 appraisal)</b>		<b>5.566</b>

Latest investment transactions in city center

	Price <sup>(2)</sup>	Cap. Value <sup>(3)</sup>
A Passeig de Gracia, 81 <sup>(1)</sup>	30	9,458
B Fontanella 6-8	20	6,030
C Travessera de Gracia, 47-49	41	4,620
D Pallars 190	21	4,122
E Av. Diagonal, 211 - Torre Agbar <sup>(1)</sup>	142	3,775
<b>CBD Transactions - Average</b>	<b>254</b>	<b>5,601</b>
<b>Colonial Average (06/17 appraisal)</b>		<b>4.367</b>

Latest investment transactions in Paris CBD

	Price <sup>(2)</sup>	Cap. Value <sup>(3)</sup>
A Rue de la Baume, 20	128	21,317
B Rue Leroux, 4	32	19,482
C Rue de la Boétie, 81-85	62	19,207
D Boulevard Haussmann 6-8	462	18,865
E Rue de Londres, 43-51	349	17,450
F Av. De l'Opéra, 5	108	15,582
G Rue Bayard	114	14,238
<b>CBD Transactions - Average</b>		<b>18,020</b>
<b>Colonial Average (06/17 appraisal)</b>		<b>15.224</b>

<sup>(1)</sup> Assets with significant Capex to be implemented

<sup>(2)</sup> €m

<sup>(3)</sup> €/sqm

**4** Acquisitions & Disposals

**Maintaining investment discipline and clear guidance**

- > Organic growth targets focusing on value add
- > Smart capital allocation
- > Disposals to capture market premiums

**ACQUISITION TARGETS**

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1. **Prioritize value add Opportunities**
2. **Create high quality offices**
3. **Maintain investment discipline**

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**Investment parameters: Organic growth**

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- ✓ **€300m per annum**
- ✓ **Ungearred 10 year IRR target**

Value Add Spain 8 - 9%

Value Add France 7 - 8%

Core Investments 5 - 6%

**DISPOSALS CREATE VALUE**

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- ✓ **Realize premiums on mature assets**
  
- ✓ **Active asset allocation across markets**
  - > Arbitrage returns
  
  - > Redeploy capital in an efficient way

4 Acquisitions & Disposals

Smart capital allocation as a principle

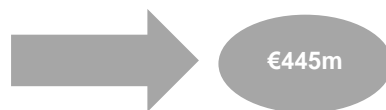
- > Capturing optimal point in specific asset life cycle
- > Asset rotation as source of value creation
- > Redeploying capital on value add projects

SMART CAPITAL ROTATION

In & Out



Value creation through disposal of a mature asset



Emile Zola



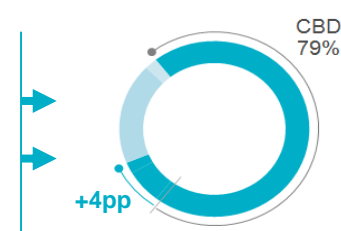
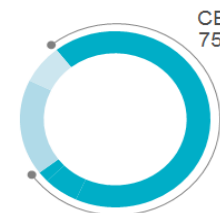
Reinvestment in value add project in city center

REAL ESTATE VALUE CREATION

Capital recycling from “Core” to “Value Add”



Capital recycling from “Secondary” to “City Center”



(1) Estimated total investment of (€245m - €265m) based on current project analysis

4 Acquisitions & Disposals

Acquisition programme on track

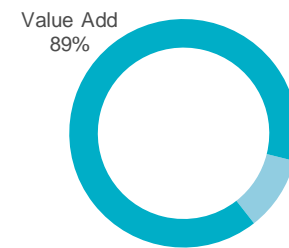
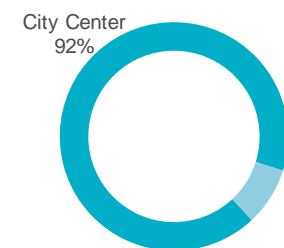
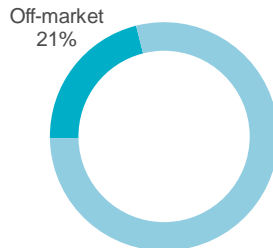
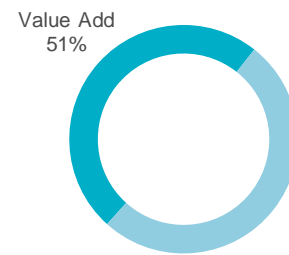
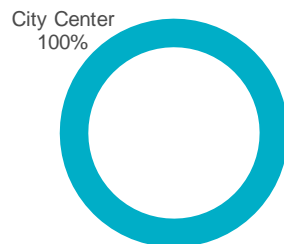
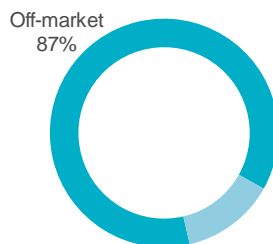
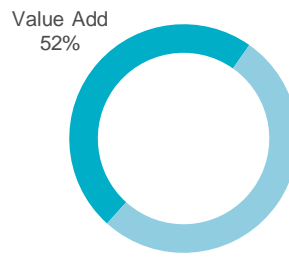
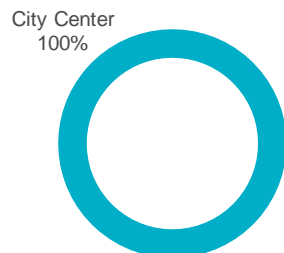
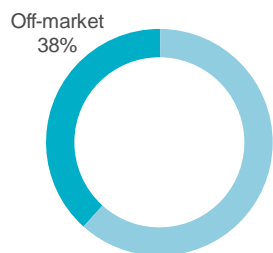
- > Sourcing prime sites with unique market positioning
- > Unlocking value through real estate transformation
- > Additional pipeline under analysis

OFF MARKET

CITY CENTER

VALUE ADDED

INVESTMENTS SINCE 2015



	Price - €m	IRR <sup>2</sup>	IRR update <sup>3</sup>
<b>Condorcet <sup>1</sup></b>	230	6%	↑
<b>Plaza Europa <sup>1</sup></b>	10	>7%	↑
<b>Discovery Building</b>	43	>10%	✓
<b>Príncipe Vergara 112</b>	45	>10%	✓
<b>Génova 17</b>	36	7%	✓
<b>Percier</b>	68	6%	✓
<b>Santa Engracia</b>	67	7%	↑
<b>Acquisitions 2015</b>	<b>499</b>		
<b>José Abascal 45</b>	35	>6%	✓
<b>Parc Glories</b>	77	>9%	↑
<b>Serrano 73</b>	48	6%	✓
<b>Santa Hortensia</b>	154	>7%	✓
<b>4.4% Stake SFL</b>	106	6.5%	✓
<b>1.0% Stake SFL</b>	24	6.5%	✓
<b>15% Stake in Axiare</b>	136	Discount on NAV	
<b>ALPHA I</b>	<b>579</b>		
<b>Paseo Castellana 163</b>	51	>9%	✓
<b>Travessera Gracia 47-49</b>	41	>6%	✓
<b>Plaza Europa 46-48</b>	32	9%	✓
<b>112-122 Av. Emile Zola</b>	265	>7%	✓
<b>ALPHA II</b>	<b>389</b>		

2017 Acqu. Target delivered in H1

(1) Investments materialized in November and December 2014 respectively

(2) 10 year ungeared asset IRR

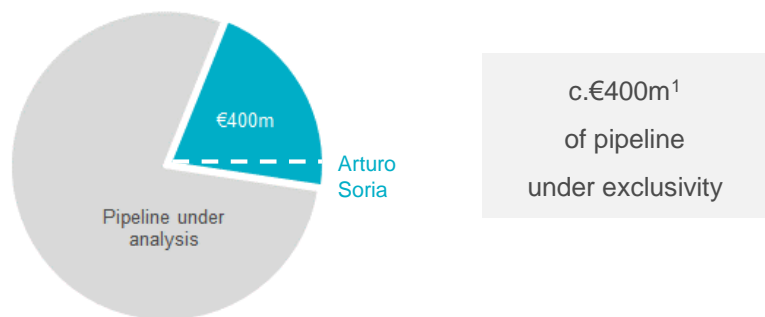
(3) Without including yield compression since initial underwriting

## 4 Acquisitions & Disposals

### Potential Alpha-3 project “around the corner”

- > Pipeline of c.€400m under exclusivity
- > Opportunity to enhance value add exposure
- > Unique market positioning

#### ACQUISITIONS PIPELINE



- > Pipeline under exclusivity for several unique prime office assets
- > Interesting opportunity due to the following characteristics:
  1. The assets are located in the city center of Colonial's core markets, offering a unique positioning in every segment
  2. The pipeline represents a diversified balance of core investment with prime factory value creation potential
  3. Total fit with Colonial's selective investment criteria in terms of risk adjusted return
  4. The acquisition of this pipeline would prove the capacity of the company to source new off market opportunities on a recurring basis



Off Market Deals

Unique Prime Assets in good locations

Strong cash Flow + Value Added Components

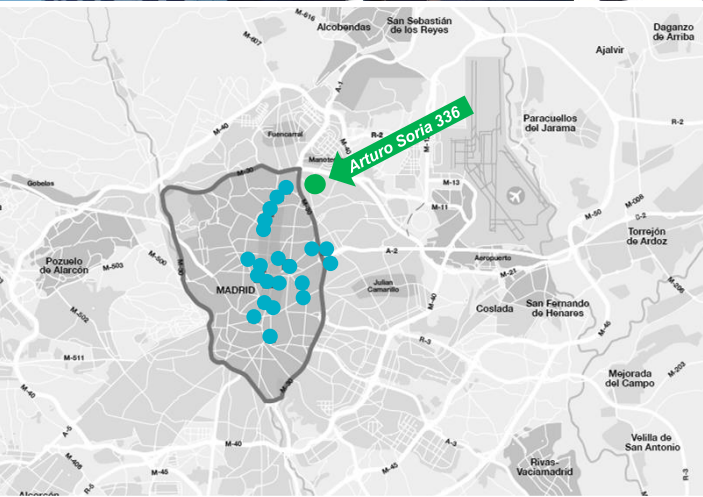
Selective Investment Criteria

<sup>1</sup> Arturo Soria 336 investment (€32.5m) included in this figure

## 4 Acquisitions & Disposals

### Potential Alpha-3 project “around the corner” – Arturo Soria, 336

- > Interesting granular market segment close to M30 in the north of Madrid
- > Micro location with excellent connections to the city center and airport
- > Value creation potential through implementation of Colonial’s Product Strategy



#### ARTURO SORIA 336 – Madrid M30

#### VALUE ADD

##### Main asset characteristics

- > Four glass façade building with more than **8,600 sq m** of GLA and 191 parking spaces
- > Efficient floor plate with size of more than **>1,000 sq m**
- > Micro location sought after by multinationals and service companies
- > Excellent connections by **public and private transport**
- > **Potential to enhance the value** of the property by value-add initiatives
  - Creation of new **amenities** and **green areas**
  - Obtaining LEED/BREEAM energy certificates

## 4 Acquisitions & Disposals

### Potential Alpha-3 project “around the corner” – Arturo Soria, 336

- > Attractive entry price and solid cash flow
- > Current situation offers an attractive ungeared IRR
- > Value creation potential through implementation of Colonial’s Product Strategy

#### ARTURO SORIA 336 – Madrid M30

#### VALUE ADD

##### Sources of value creation

- > Asset complementary to Colonial’s CBD portfolio in Madrid
- > Fully let multitenant building, occupied by AAA leading companies
- > Short term WALT (below 2 years) with positive reversion
- > Additional value creation through repositioning initiatives
  - €200/sq m of capex to be deployed
  - Energy certificates envisaged
  - Attractive rentroll to capture rental and value uplifts
- > Attractive entry price of €3,311/sq m<sup>2</sup> for an office building in Madrid M30



##### The Transaction

Price <sup>1</sup>	€32.5m
GLA	8,663 sq m
Parking	191 units
Capital value <sup>2</sup>	€3,311/sq m

##### The Opportunity

Ungeared IRR	>7%
Potential Yield on Cost	>6%

<sup>1</sup> Excluding transfer costs

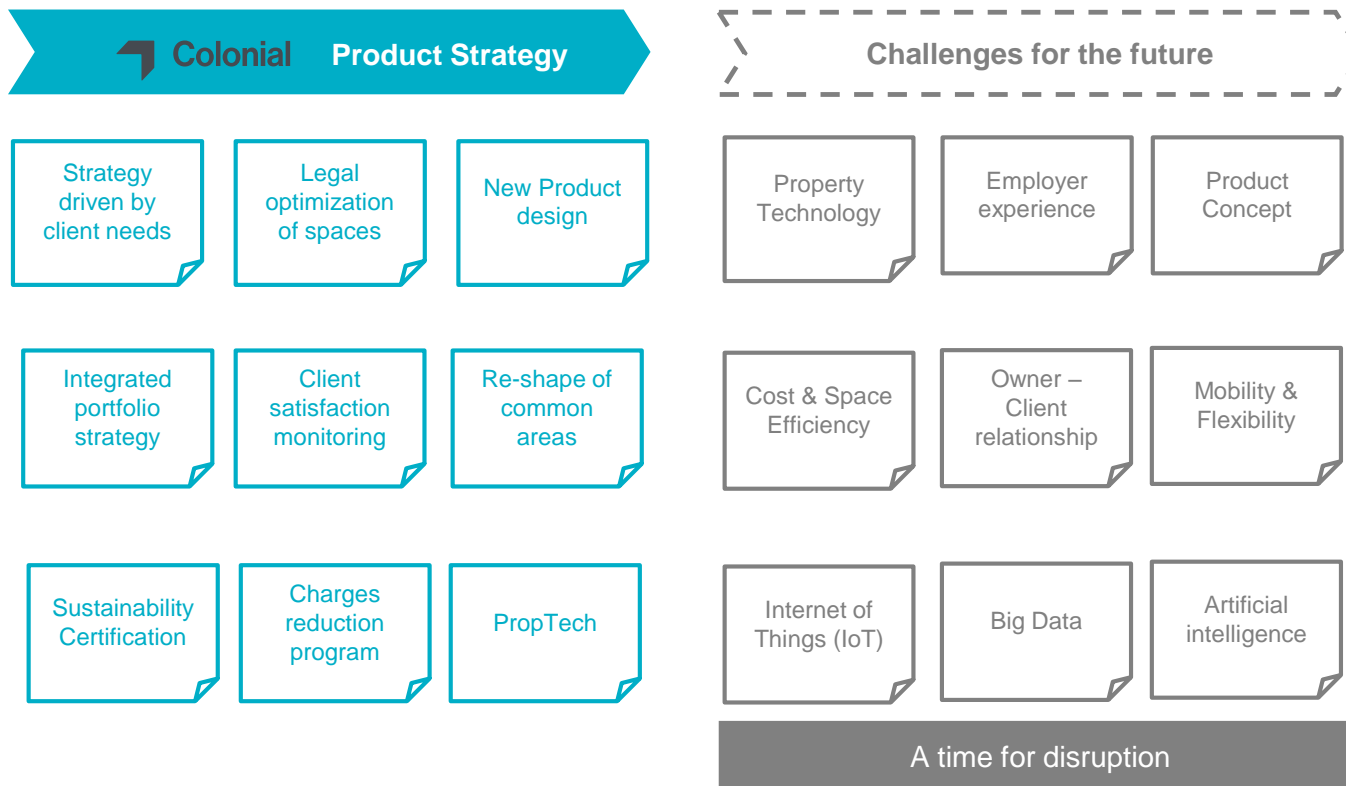
<sup>2</sup> Acquisition price excluding parking spaces (considering 20,000 €/unit)



5 Proptech enhanced strategies

**Colonial with strong ambition on Proptech initiatives**

- > Colonial monitoring the digital transformation of the Real Estate sector
- > Colonial implementing an internal Proptech Strategy



5 Proptech enhanced strategies

Colonial with strong ambition on Proptech initiatives

- > Colonial monitoring the digital transformation of the Real Estate sector
- > Colonial implementing an internal Proptech Strategy

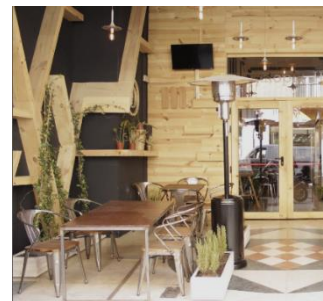
> Acquisition of a leading **CoWorking** platform in Spain

- Estimated settlement by the end of this month
- Growth of the real estate **platform** and new services for customers
- From analogical to **"digital"**
- Digitalization of the business – From sqm to **community**

> **Colonial Lab**: support of new initiatives and start-ups

> Expansion of the team with **Aleix Valls** as **Digital Senior Advisor**

- Former CEO Mobile World Capital Barcelona (MWCB)
- Global reference in digital entrepreneurship
- Mathematician, engineer and Ph.D. in fluids mechanics



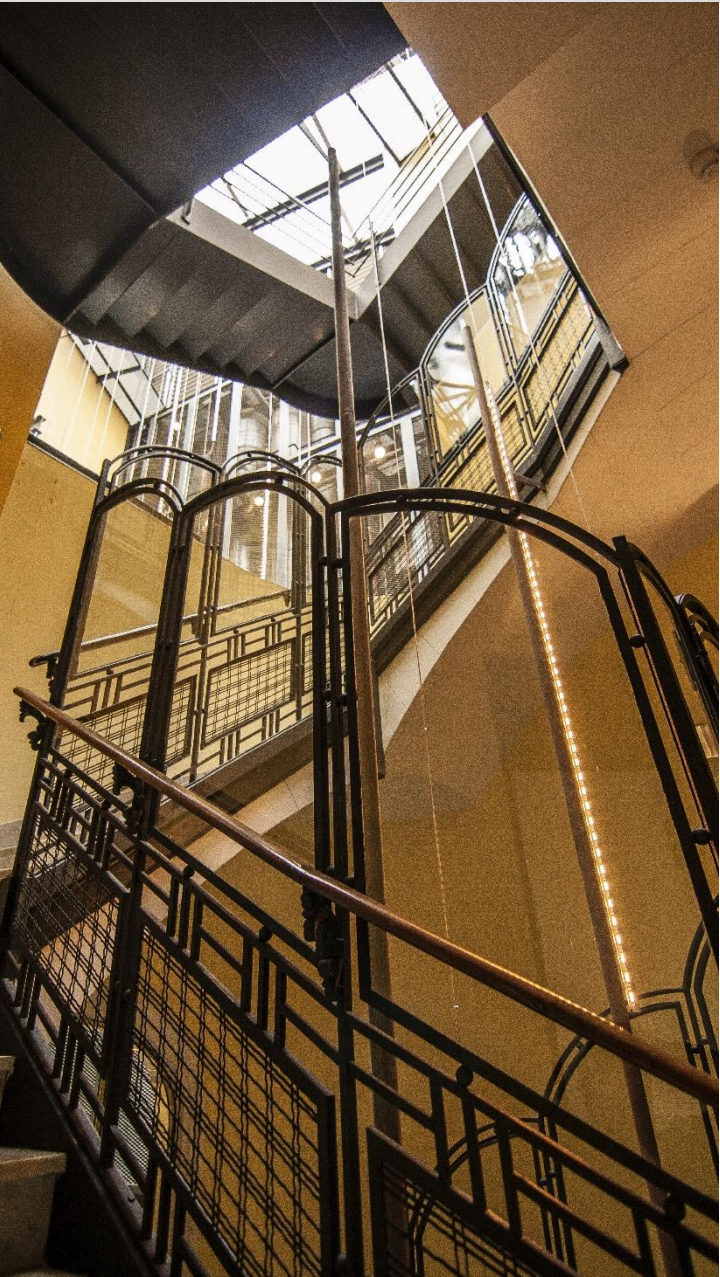




## FIVE PILARS OF VALUE CREATION

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- 1 Project pipeline and value-add programme
- 2 Capturing rental price increases
- 3 Catching up with market values
- 4 Acquisitions & Disposals
- 5 Proptech enhanced strategies



## OUTLOOK - COLONIAL'S PORTFOLIO WELL POSITIONED

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- A** **Confident on Colonial's Business Model**
  - > Smart asset allocation provides resilience
  - > Prime exposure gives competitive advantage
  - > Long term sustainable returns through Alpha strategies
  - > Superior risk adjusted returns
  
- B** **Company well positioned in office markets with solid growth profile**
  
- C** **Strong balance sheet enhances flexibility**



## GUIDANCE

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- 1 Profit & Loss Top Line: 2017E GRI > €279m**
- 2 Ongoing organic growth focused on high quality offices**
  - > Acquisitions of €300m per annum
  - > Prioritize value add opportunities
  - > Disposals of mature assets
- 3 Growth strategy with moderate dividend yield**
  - > 2-2.5 % Dividend Yield
  - > Redeploy capital on growth opportunities
- 4 Strong commitment to solid capital structure**

Colonial



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