

Colonial



Colonial – Investor Day
BUSINESS CASES SPAIN
Mr. Albert Alcober
Colonial Chief Operating Officer



Paris 17/10/16



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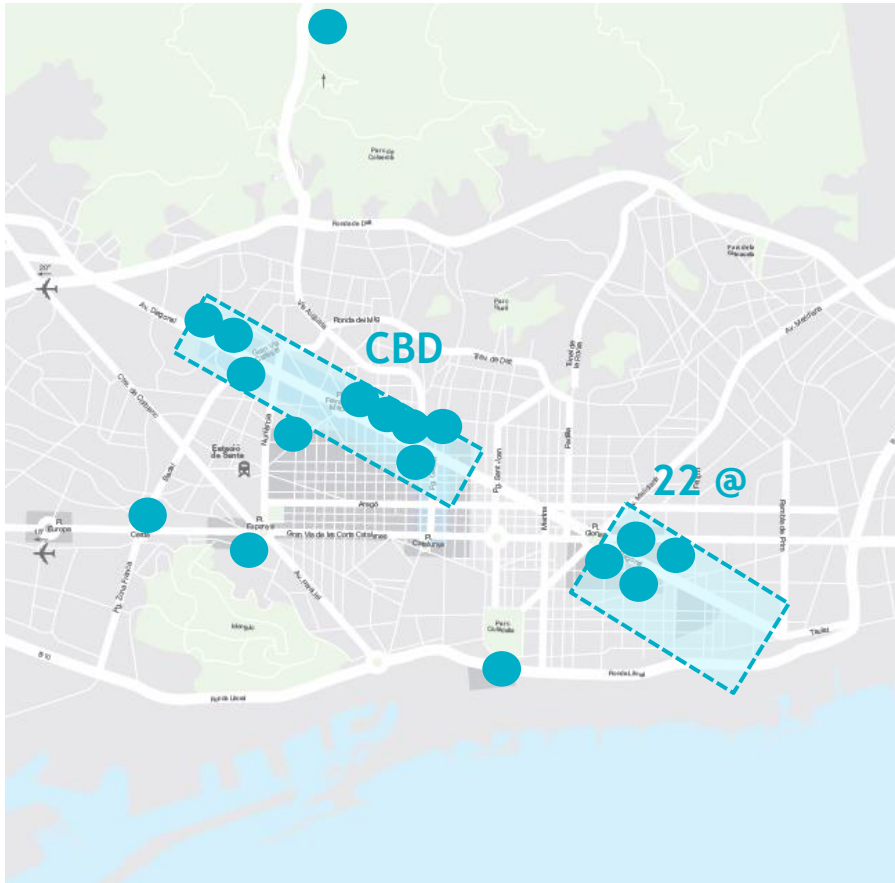
- 01 Parc Glories project - Barcelona
- 02 Repositioning Program of Current Portfolio

Parc Glories Project - Barcelona



Barcelona – two markets attract prime demand

1. CBD: the focus for traditional companies
2. 22@: Emerging new CBD for multinationals



CBD

- > Office stock of 800,000 sq m, 14% of total Barcelona
- > Vacancy rate of 6% with almost non existence of Grade A space
- > Slight reduction of stock due to change of use to residential and hotel use
- > No future supply expected in the next years
- > Current occupiers are from traditional sectors such as finance or law firms

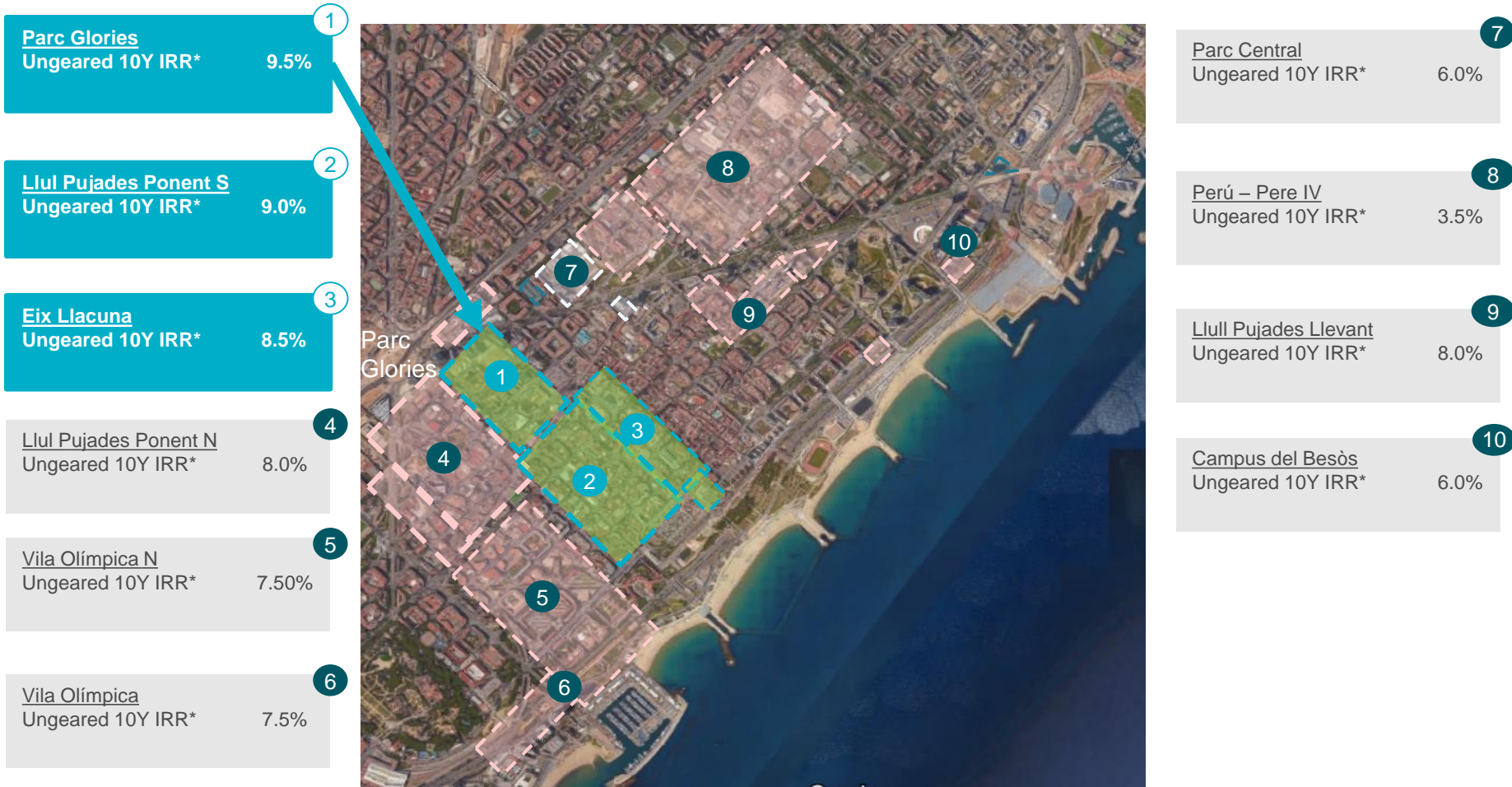
22@ Barcelona – An Attractive Growth Market

- > Growing market with an office stock of 1,000,000 sq m, 15% of total Barcelona
- > Highly innovative district attracting knowledge-based international companies
- > Emerging “new CBD”, more than 4,500 companies since 2000
- > Future supply is scarce: 60,000 sq m of speculative space

01 PARC GLORIES PROJECT - BARCELONA
 22@ Barcelona – An attractive growth market

Maximizing returns is about “granular” market analysis

- > Especially three 22@ market segments are profitable
- > Parc glories is the prime segment of 22@ market



* Ungeared 10 year IRR considering the development of a new office Project. For illustrative purpose only, not a forecast

Within 22@ market, the Glories segment has the strongest fundamentals

- > Most consolidated area in occupiers, services and connectivity
- > Limited stock of 300,000 sq m with 2% available space



22@ Barcelona – Main KPIs

	Total 22@ Market	Parc Glories Area
Office Stock Sq m	1,000,000	300,000
Vacancy Rate	11% / 2% grade A+	2%
Prime ERV	16 € / sq m / month	

Multinational companies are moving to 22@



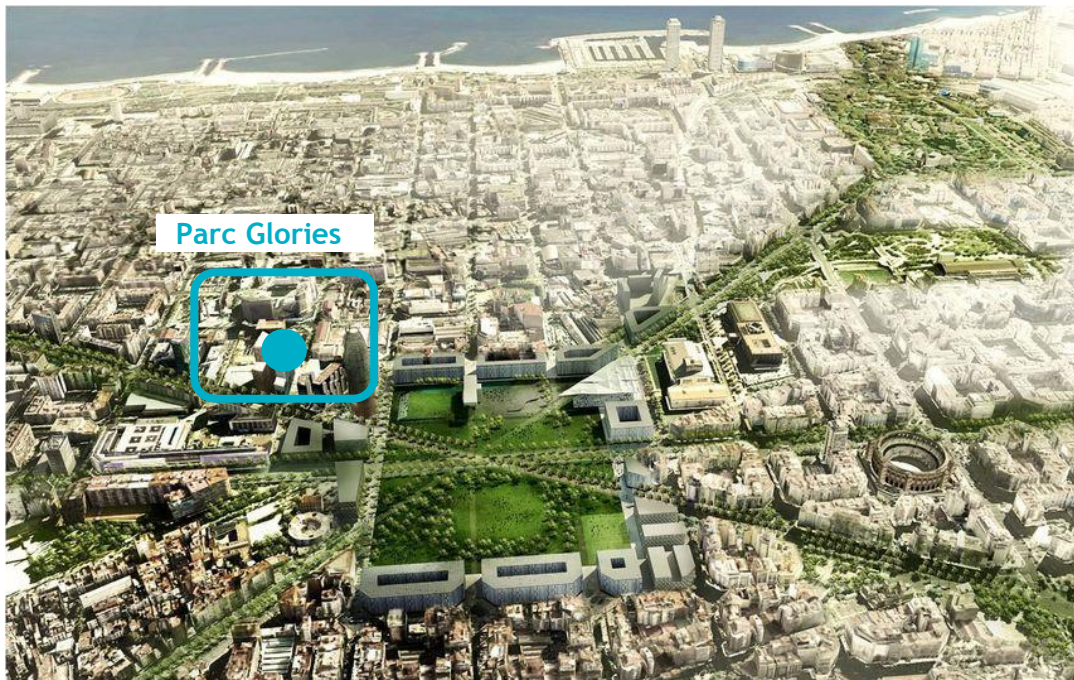
- > Unique product, best positioned in Barcelona's "new" CBD of the future
- > Anticipating office market trends at optimal market timing

PARC GLORIES – 22@ Barcelona

PRIME FACTORY

Main characteristics final product

- > Iconic new prime 17 storey office building of 24,500 sq m in Barcelona
- > Open-plan column free floors with floor plates up to 1,800 sq m
- > Flexible floor and sizeable plant divisible in modules
- > One of the first LEED Platinum offices in Barcelona market
- > The project is led by Batlle I Roig architects, who have designed Interface and CMT buildings



- > Unique product, best positioned in Barcelona's "new" CBD of the future
- > Anticipating office market trends at optimal market timing

VALUE CREATION THROUGH CREATIVE SOURCING PROCESS

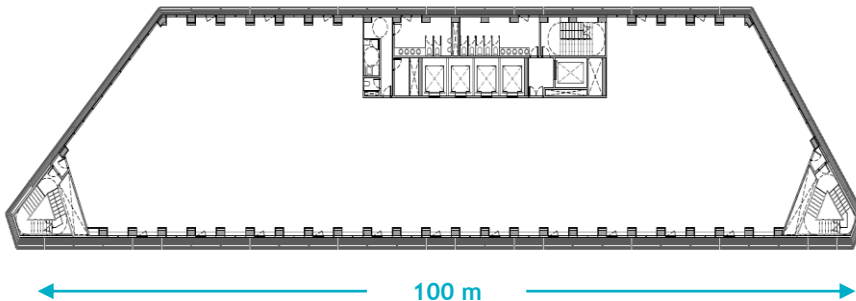
- ✓ Acquisition of a "Proyecto Ejecutivo":
Land plot with licenses & permissions

- ✓ Colonial outbidding competitors in acquisition process, leveraged on...
 1. Capacity to take development risk
 2. Attractive pricing through share deal structuring
 3. Capacity to execute rapidly

Acquisition of an attractive project at a competitive pricing, below 3,000 sq m



- > Unique product, best positioned in Barcelona's "new" CBD of the future
- > Anticipating office market trends at optimal market timing



PROJECT EXECUTION

1. April 2016 - Due Diligence process

- ✓ Review & definition of suppliers
- ✓ Reconsideration of optimal project phasing
- ✓ Renegotiation of project terms

2. May 2016 - Transaction Closing

3. June 2016 – Start of project works

4. Strong Pre-let activity:

- ✓ Demand from technology, advertisement & insurance companies
- ✓ Strong interest of international company to take-up more than 9,000 sq m
- ✓ Initial price conversations with rental levels 20% above current ERV
- ✓ Current situation fully confirming initial investment underwriting

> Strong footprint in a prime market segment that is finalizing a full transformation of the district





Investment with very attractive ungeared 10Y IRR

- > Competitive entry Price guarantees strong yield on cost
- > “Super-Prime” positioning in a growing market

The Transaction

Price ¹	€45m
Capex	€32m
Total Investment	€77m
GLA ²	24,500 sq m
Parking	141 units
Capital value ³	€2,991/sqm

The Opportunity

Yield on Cost	>7%
Ungeared 10Y IRR	>9%

Sources of Value Creation

- > Prime positioning in Barcelona's most dynamic growth market
- > Attractive entry price with competitive construction costs (c.1,300€/sq m)
- > Unique asset, one of the first LEED Platinum Offices in Barcelona
- > Competitive product in terms of size and floor layout:

Currently no new supply of premises with more than 10.000 sq m in Barcelona

1 Excluding transfer costs 2 Surface above Ground 3 Excluding parking spaces

Colonial value add projects



Value creation through “Alpha” strategies

- > Creating rental uplifts
- > Creating yield compression

Repositioning program

Objectives

1. Create products that meet maximum demand standards: **Maximize competitiveness & willingness to pay**
2. Anticipating trends fulfilling g customer requirements: **Anticipate & Adapt**

Add value to the portfolio via created ERV uplifts and created yield compression

Methodology



Current situation

Inspiration

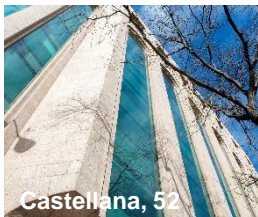
Actions on buildings

Value creation

Execution of value added strategies

- > Repositioning programs of current portfolio
 - + Created ERV uplifts
 - + Created yield compression

CURRENT PROGRAMS 2016-17 SPAIN



ACTIONS

- ✓ 11 assets
- ✓ Close to 30 initiatives
- ✓ 125,993 sq m affected
- ✓ €9m Capex deployed

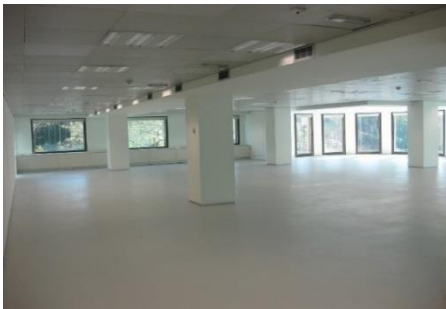
GAV 6/2016 of current program: €531m

VALUE CREATION ACTIONS

- ✓ Full refurbishment of façades
- ✓ Lobby restyling and reorganization
- ✓ Improvement of common areas
- ✓ Floor plants redesigning
- ✓ Parking refurbishment
- ✓ Increase buildings efficiency

CASE STUDY: CASTELLANA 52

INITIAL SITUATION



A PRODUCT TO BE RESHAPED

- ✓ Average vacancy of 20% for the last 8 years
- ✓ First floor being empty since January 2008
- ✓ Asking price around €19/sq m/month
- ✓ Retail space under managed
- ✓ Parking with refurbishment needs

CASE STUDY: CASTELLANA 52

THE OPPORTUNITY

- > Reposition of optimal retail use
- > Redefinition of entrance & common areas
- > Reposition of vacant floors with new plan
 - > Innovative concept of lighting and air-conditioning
 - > Implementation of technical floors
 - > Creative approach to increase natural light by 30%
- > Full reshaping of parking
- > Potential repositioning of external façade under study

Pilot project to be implemented progressively for the full asset

TARGET POST EXECUTION



CASE STUDY: CASTELLANA 52

REDEFINITION OF RETAIL SPACE

Before



Post Execution



HALL RESHAPING

Before



Post Execution



FLOORS

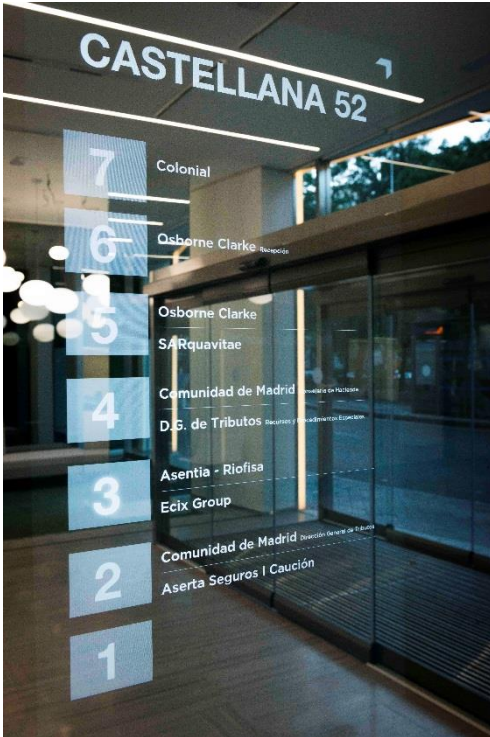
Before



Post Execution



CASE STUDY: CASTELLANA 52



DRIVERS OF VALUE CREATION

	Current	Target
Occupancy	86%	100%
ERV Uplift		+30%
Envisaged Rental levels		≥ 25 €/sq m / month

LOPEZ DE HOYOS - MADRID

BEFORE



TARGET POST REPOSITIONING



FRANCISCO SILVELA - MADRID

BEFORE



TARGET POST REPOSITIONING



MIGUEL ANGEL - MADRID

BEFORE



TARGET POST REPOSITIONING



DIAGONAL GLORIES - BARCELONA

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