Transcription of Inmobiliaria Colonial - First Quarter 2023 Results Presentation

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

Pere Viñolas: Thank you. Good afternoon, good morning, everyone. Pere Viñuales speaking. Also with me, Carmina Ganyet, Chief Corporate Officer, and Carlos Krohmer, Chief Corporate Development Officer.

I'm very pleased to share with you the results for the first quarter of 2023. As you will see in a minute, I believe they are quite solid results and a strong cash flow, strong operations and a solid balance sheet.

Let me go now to page number six, where you can see the summary of the results and then I will go, as usual, more into details. We have finished the first quarter of 2023 with a recurrent net profit of €38M. It is 5% more if we adjust for doing the right comparison in terms of continuing operations, then the recurring net profit growth is 14%. The EPS, it's €0.07 per share, it is 5% more, 14% more in terms of continued operations. EBITDA, €65M, 13% more, 19% in terms of margin of operations and revenues, €90M, 11% more, 10% like-for-like. These are the main KPIs regarding the cash flow, which as you can see, is quite strong.

In terms of operations, we have improved our occupancy, which was already quite high from 95-96% to 97%. That is 115 basis points more, so very close to 100%. Our letting volume, that is 13% more than the previous quarter, more than 45,000m².

A 6% indexation for our existing contracts. And in terms of rental growth, 6% release spread, 3% growth on December '22 ERV. That is 3% in a single quarter.

Finally, on the balance sheet management side, we remained with S&P credit rating confirm a BBB+ stable outlook. As a coincidence today, S&P has delivered in written their opinion about us. Liquidity remains above €2.5B. All of our debt remains 100% at a fixed cost. And this cost, the cost of debt, is just 1.67.

So a solid balance sheet, strong operations and cash flow.

Let me summarise what's going on at least this quarter and which is quite consistent with what we saw already last year. First of all, the obvious comment is that Colonial remains delivering very strong cash flow growth with full pricing power. In this sense, we achieve one of the highest gross rental income or net rental income like-for-like growth in the sector. As we will see later, this double-digit growth rate, it's quite higher than the rate of growth that we used to have in recent months and years, and clearly above our peers. So we show a leadership at this level, coming from our very well-known leadership position in terms of polarisation.

We continue to deliver a perfect inflation hedge. Colonial is capturing the cash flow growth coming from indexation in full. As you know, the game is now that interest rates are already up because inflation is already higher, the question is who is able of delivering benefits with cash flow that grows together with inflation? This is our case for this quarter and it was for the last year.

All of this excellent performance in terms of operations have also as a consequence, an outperformance in terms of occupancy.

Colonial is improving its own occupancy, which was already very high. And not only this, but again, we are outperforming the market in terms of this ratio of occupancy or vacancy, and we have the highest occupancy among our peers as of today.

So good operations, good data on occupancy.

Now, going through the balance sheet issues, I just mentioned that today S&P confirmed our BBB+ credit rating, which is very good news. Let's not forget that we are at the moment of the market, where maybe 50% of the market is getting downgrades or negative outlooks. We remain the same. We remain strong in terms of our balance sheet and this is because of a number of issues.

Let's just mention two of them. First, strong hedging profile, which keeps our financial costs under control, not only under control, but in very, very good terms for the next few years. And also this solid balance sheet position is because of the outcome of our disposal programme that has already been completed in rough terms, as I will mention later. The Colonial €500M disposal programme has been completed and particularly, it has been completed, again in line with NTA valuation, in line with the appraisal results. So all in all, a set of very good news, very good performance, better than the past, better than the rest. Now let's go into details. Let's go to the next section on the financials.

Carmina Ganyet: Thank you, Pere. In this section, we are going to see in more detail the main financial indicators. The first is, as you see on page nine, a strong profitable growth in all metrics, gross rental income increasing 11%, 10% like-for-like, up to €90M, as well as net rental income 12% growth, like-for-like 11%, and EBITDA with €65.4M increasing 15%. And considering the impact of the disposal, as mentioned in the continued operation, this growth would have been 19%. Consequently, the recurring net profit increases 5%, 14% considering the continued operations, and the earnings per share as well shows a solid growth of 14% continued operations, 5% in absolute terms.

What has been the main driving forces of this EPS growth? On the next page, you can see the recurring EPS of continued operations increasing by 14%, €11M almost. On top, we have a negative impact due to the disposals achieved in this first quarter of €4M, and financial cost negative impact of €4.7M due to the fact of the rates increasing. But as you can see later on, the impact of the financial cost has been only increasing 26 basis points when the market has been increasing more than 350 basis points in interest rates. You will see it in more details in the following pages.

Consequently, 5% recurring profit growth, 14% continued operation and the EPS guidance, thanks to this first quarter results, keeps on track as we release in the annual results, when we will release the EPS guidance.

If we go to the top line, the gross rental income, you can see here the main impacts of this growth of 11%. The core portfolio contributes with 9% growth in revenues, basically on the back of the superior pricing power. Additionally, the projects that have been delivered during the first quarter is adding 3% to the gross rental income. And additionally on top, the acquisition of Pasteur mainly contributes with 5% growth in the revenues.

If we go to market and what has been basically the main impact and the main sources of this growth in different markets, in the following page, you can see that Paris Madrid remains very strong in terms of like-for-like growth, outstanding Madrid with 16%, Barcelona remaining flat in the first quarter.

And the main impact of this gross rental income basically is a combination of indexation. So this 8% price impact, half of this pricing power is coming from the indexation, from the updates in all the contracts at the rates of indexation in France and in Spain, and on top, the occupancy has contributed positively with 2.3%, outstanding, the occupancy in Madrid.

If we go finally to the capital structure, as Pere mentioned, S&P has confirmed the securities class credit rating with a stable outlook recently. So you can see the interest cost of debt, the financial cost, is in the low levels of cost of funding among peers.

We have a significant interest expenses protection, thanks to the hedge and the fixed cost of debt. And as you can see here, since 2021 and 2022, the financial cost has been increasing 26 basis points from 1.4 to 1.67, when the market has been increasing more than 350 basis points. It is thanks to the fixed hedge cost of that strategy.

Thanks to also the disposal, the loan to value has been significantly improved, less than 37% loan to value in this first quarter. And as you can see here, also the profile of debt maturity shows a very strong, stable debt maturity profile, with 75% debt maturing after 2026 and with a significant liquidity position covering almost two times the debt maturing in 2023 until 2024.

So consequently, the limited debt maturity, the large hedged position and significant also secure liquidity strength of Colonial debt service mitigates any financial risk for the following almost three years.

Carlos Krohmer: So thank you, Carmina. A quick look on operations. I'm on page 15. As Pere already mentioned, this quarter has been extremely strong in letting security, more than 45,000m². This is plus 13% versus the previous year, previous quarter. This is quite substantial, taking into account that we are already at high occupancy levels and have less and less space to be offered. Most of this has been vacant space, so we have improved a lot, 115 basis points, the vacancy profile, and we have locked in long term contracts, seven years until first exit and ten years until contract expiry.

When we go onto page 16, and go a little bit more into the detail, here you see that 27,000m² or 60% out of the leasing activity in the first quarter has been new lettings, so the new spaces, and this at the end is a consequence of a very significant occupancy profile, especially in Madrid, where we hit now 97%. In Barcelona, we have improved by 355 basis points. And Paris, we are remaining at a full occupancy, close to 100%.

If we go into the next page, on page 17, where is the vacant space located in our portfolio? Out of the 3.3% availability, half of it is scarce space of high quality products in the CBD of our portfolio, in the CBD of Paris, 0.2, 0.6 in Madrid. Part of this is Velazquez, where we have already, as of today, let a significant chunk, and 0.6 in CBD Barcelona. The rest is entries into operation, especially in '22.

If we go to page 18 and look at the performance, how we are signing, which rents we are signing, from the first indicator on the release spread, we are remaining one of the highest release spreads in the sector, 6%. When you compare with other people that have reported, this is an extremely good result, especially driven by the very strong pricing power and release spread in Paris that is at double-digit levels of 10%.

On the ERVs, we are remaining and maintaining ERV growth. Just in a quarter, we have increased already 3% because you have to take into account that this 3% is rents that we have signed, comparing with the very recent market rent references of the appraisal of December 2022. So just in one quarter, an increase of 3%. And in Madrid, really outstanding, 8% increase. So really, we are really quite happy and confident with how it's going on in our performance.

Pere Viñolas: Thank you, Carlos. Maybe I would like to come back to my initial comments and go more in depth, with providing some visibility on the strategic angle of these results. I'm on page 20.

As you know, Colonial is a company which for a long time has had a focus on Prime CD, which means not only prime assets, it's prime clients, it's prime contracts. It's about targeting the people, the companies that today have a behaviour, a clear behaviour, which is to secure the best assets more than ever.

And in current market circumstances, what we are seeing is that on the back of this polarisation trend, there is quite a very good tailwind for our business the way we are approaching it. We've seen the presentation today that demand, the take up this quarter, has been double-digits better than the previous quarter, which as you may remember, was already a fantastic year. The year 2022.

So demand has been, in terms of square metres, much better. Occupancy has grown even more at the moment that we were already at 97%. Rents have improved. So everything put together, what it means is that our productivity is performing very, very well.

In terms of like-for-like, on this page 20, you can see that this quarter we have a 10.3% like-for-like in our rents, which is a lot more than we saw in the previous four years, as you can see, for both gross rental income and net rental income on the left part of this chart, and which is also more or better than what we can see in our peers, either if we look at the median or the average of our colleagues. So I think that this strategic difference is paying off.

In a very visual way, you can feel this on page 21 when you look at these pictures. [...]

[...] I don't know what else we could add in terms of how these buildings are performing. You can see where they are. You can see how much they are looked for by the market, how much people like them, and in the end, what kind of occupancy we do have.

Implicitly in these numbers, page 22, what's happening to us is that there is no debate about us passing through inflation. There is no debate about pricing power because our performance is even better, as has already been disclosed, discussed before by Carmina and Carlos.

But as you can see in this table, on page 22 on the left, we are capturing indexation at a level of 6%. We have already a cumulative impact year-to-date of 3%, just in one quarter, and we have another 3%, which is to crystallise further during the rest of the year.

So in this context, we have in France today, the last available number is 6.5% ILAT. In Spain, it is a 4.1, just released last week. But we are securing that our cash flows reflect this accordingly, which as I always say is the other side of the coin of interest rates going higher.

Page 23 is just to say that all of this tailwind in terms of cash flow is coming not only at the level of our existing portfolio, which is already delivering its yield, its cash flow. It's already coming more and more from our project pipeline, where we have already six projects out of eight delivered, and there are two more to come.

News, recent news in the project pipeline, where we finalised Plaza Europa 34. This building has been delivered as expected in terms of costs, and has been delivered very well, fantastically well in terms of occupancy because it's fully pre-let by [inaudible] and it's already up and running.

So now our efforts remain only concentrated in two projects, which are Louvre Saint-Honoré and Méndez Alvaro Campus. Louvre Saint-Honoré, as everybody knows, is [inaudible] already, and we have just to deliver the project to our tenants. This is happening this year. It's happening in the second half. It's happening earlier than we expected, so we will have a positive deviation on this. And it's happening without any deviation in terms of cost.

And then the remaining issue for next year, which will be Méndez Alvaro, where we are concentrating now our efforts in terms of leasing.

All in all, that means that in our cash flows, there are €34M that is coming annualised from this pipeline. But we have more than this to come. We have €55M which is already secured, and on top of that, an additional yield that will come mainly from Méndez Alvaro, that will yield up to a total, global for all of the pipeline, of €82M, which only a small part of this is in our current cash flow.

By the way, this 6-7% yield on cost, 16% yield on CapEx.

Page 24 is just a reminder of where our efforts are. Louvre Saint-Honoré, as I just said, the 40-year contract is already signed. And here, the news is that we are delivering this project through [inaudible], which is doing a fantastic job, earlier than expected.

Méndez Alvaro campus is on track and Rives de Seine, a new project for [inaudible] for a new office complex in Paris.

Maybe my final comment would be on asset management and the way we are approaching our balance sheet. As you know, we are quite consistent over time and what this has been doing, and not only this year but in the past, has been to always work in a trend to secure the best rating for the company.

We've done a relevant number of disposals in recent years. In this page 25, by the way, you can see that always at a significant premium, and in the last 12 months, basically in line with the expertise, with our gross asset value, we've delivered sales of approximately €500M. That's part of our strategy of being a net seller.

Two things in mind. First of all, with this, we are enhancing the capital structure of the company. And number two, we are providing repeatedly examples of arbitrage between what is the value of transactions and what is the value that we see in the stock market.

So basically, this is another way of providing value to shareholders that so far this quarter has been very successful, and we probably will keep on going in the same direction in the next few months.

Final remarks on page 27. A little bit of a summary of what we've already seen. Things to be highlighted, main takeaways from this presentation. Our EPS going up 14% on continued operations, so comparing the same set of assets, that's the trend of EPS, which means that we have been able to deal with divesting investments without hurting our EPS. This is because the underlying strength of the market is quite high and this can be summarised in a double-digit rental growth number, 11% like-for-like for net rental income, on the back of very strong demand, on the back of increasing occupation. And 11% like-for-like, which is at the high end of our history and at the high end of our peers.

As I just said, occupancy is going even higher. It's difficult when you are at 96 to go higher, you cannot go very much higher than this. But we went a little bit, 97, and all of this trend of strong demand, strong occupancy is also in a framework of additional cash flow coming from indexation and coming from rental growth, which remains relevant.

The other take away we just saw, pipeline delivery almost completed, which is about to deliver significant future cash flow to come.

And finally, good strength at the level of the balance sheet, disposals plus outstanding financial hedging, and pre-hedging, securing a low interest rate, all in all, providing a strong balance sheet outlook, which has allowed us to have confirmation from S&P about our rating level just today.

Based on all of this, as of today, it's just the first quarter. So the first quarter usually means that we should be more prudent than usual, and more when we go into the second half of the year.

But as of today, we can only do a confirmation of our guidance for the EPS of this year '23, which means 28-30 cents per share. And as it's already well known, in the short term, we are going to submit to our shareholders meeting the payment of a dividend fully in cash of €0.25 per share, which means a 4% growth year-on-year.

This quarter, you know that it's not a quarter where we go through the revaluation of the assets, which in our sector happens in June and December. We can only provide strong evidence on operations, also a little bit on balance sheet management. But I would say that the summary of what we are doing today is that it is quite satisfactory for us.

This has been the presentation. Thank you. And now, as usual, we are open to the questions you may have. Thank you.

Moderator: Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please press star one one on your telephone keypad. Please be informed that there can be a short silence while questions are being registered. Thank you.

We have a question from Jonathan Nader from Goldman Sachs. Please stand by while we open your line. Jonathan, please.

Jonathan Nader: Thank you, thank you very much for taking my questions. Three questions, if I may. First of all, could you help us understand what's happening on a transaction market, on the processes happening in Paris in particular? What is the feel in terms of asset valuations, yield increases, and a number of [inaudible] obviously are concerned that prime assets would be priced the most because they have very low yield in Paris. So a bit more colour on that would be helpful. And then we'll go through the other questions maybe afterwards.

Thank you, Jonathan. No, on our side, just to confirm maybe that the current outlook, first of all, has been for us quite different in France and in Spain. Maybe in Spain, there's been much more visibility for an investment market where our assets are very appealing for family offices. And basically in that segment, we have been able to deliver the most part of our divestment programme and explains most of the 500 that we have already done.

On the other hand, Paris remains quite in a transition mood where no activity is happening. I think that basically, my view is that investors are trying to assess how to underwrite an asset and they still probably are in the process of having more visibility on what the cost of capital, inflation, rental growth they can expect from the assets. Of course, they come maybe with some much more strict numbers or, let's say, much more demanding on the pricing they can have. But then what happens is that on the other side of the table, there are no willing sellers at that price, for those assets that are so unique and [inaudible].

So as a summary, I think that this first quarter, and I would say until today, investment markets in France remain quite in a transition mood, trying to find a repricing maybe at a higher level of yields, but still with very low visibility.

Jonathan Nader: OK, that's fair. Second question, maybe. Obviously, your operating performance appears to be strong. Your interest cost hasn't moved too much and your highest level of hedging. The question is to what extent your guidance would be conservative. I mean, obviously it's only third quarter, but you're saying that there's more positives. The question is, is your guidance not a bit conservative, given the strength of the market, or are you expecting deterioration from here and your metrics maybe to not be as strong from the COVID impact perspective that would have run until now?

Pere Viñolas: Yeah, it's very difficult because as you know, at this time of the year, we usually have to be more prudent than usual. So we maybe are more conservative than anything in whatever we may say. As you see, the current generation of cash flow is very good.

But I am not in a position to say that the guidance should be revisited. I think I have to stay where I am now as of today, because at this time of the year, there's still too many uncertainties, uncertainties on the [inaudible]. There's nothing happening to our assets in terms of more weakness, recession, nothing as of today. But because of everything that's going on, I think that we have to remain within outlook in terms of guidance for the rest of the year.

Jonathan Nader: And perhaps, if I can expand on this, obviously your like-for-like rent flow growth is quite elevated, you see. I appreciate there is inflation coming through, but those levels are substantially above inflation. Can you help us understand whether that comes from additional rental from surfaces that were previously in sort of refresh? Is that just because of the reversion or, you know, why is the incremental like-for-like rent growth versus new inflation? Where does that come from? And ultimately, should we expect that to trend back to inflation quite quickly, given your occupancy [inaudible]?

Pere Viñolas: Carlos is taking that one.

So, obviously, it's a combination of several things, but we have been on a recurrent basis always repositioning and putting the assets in the best shape. So this we are doing as a continuous policy and this allows us to really capture then that extra rent. And when you look into the ERV growth, into the like-for-like growth, into the release, and whatever you look at, you will see that basically, the assets that are leading the trend are especially the Paris office. So there, we are having the strongest growth and then, as we put the brand new additional products on the market, this highlights also, explains the figure in Madrid. We are there also capturing significant market rental growth. So it's a combination of reshaping the things, of capturing really the maximum rent in the market by putting the supply of the best products. But as you can see, it's well in excess of CPI. So we are generating in excess of CPI on a like-for-like, 5% extra like-for-like natural growth. This is actual.

Jonathan Nader: OK, maybe the last question is regarding LTV and disposals. Again, I mean, do you have a sort of target where you want to get to? You're doing this 500M programme. What should we expect? Where would investors expect your LTV to be positioned at the sort of target?

Pere Viñolas: I think that to have a view on the LTV, it's difficult because it depends really on the deal that we have to see how the product develops during the year. In terms of divestments, I think that we will be monitoring the market and we may do more in terms of divestments because it has this double logic. First of all, to enhance a little bit the LTV, it's good. It's well received by the market, both from the debt market and from the equity market. But then on top of that, today, if you sell at the equivalent of 12 what the market is pricing at 5.6 and was today, it's a no-brainer. So if we can do more of this, we'll do it. We have a few transactions that we are working on as we speak, about, let's say, a smaller volume. But just to answer your question, we will be still doing a little bit more if the market conditions allow us to do so in terms of divestments.

Carmina Ganyet: Sorry, sorry, this is Carmina. Jonathan, and also, I think it's not only a matter of loan to value though, because the fact that we have this, I would say, hedge and safe positions with interest costs, even with a 37 or 39 or whatever loan to value, we don't have any deterioration of the debt services. And this is why the rating agencies' approach is not these criteria. So of course, a decent loan to value is a loan to value, but it's not only a loan to value because you can have a very low level of loan to value and a high risk of deterioration of the debt service because of the floating rate.

Jonathan Nader: True, of course. Maybe one final conceptual value on your disposal programme. Would you rather sell assets maybe at the lower quality end of your portfolio, slightly higher yielding them? Would you consider the top end of your portfolio lower yielding, or would you even have the ability to sell assets with no cash flow at this stage?

[Crosstalk]

Carlos Krohmer: Look, of course, it's [inaudible], but in theory, the pecking order is first of all, if you have a land lot which is secondary, then we sell. It has to be a good asset because you could not sell this at the present value if it was not good. But number one, we've already done a little bit of that, but [inaudible] of the assets or land and we may do more of this.

Next, it's maybe secondary Spain, which is in the list. It's not only that we are not so fond of this for the long term, but usually, in many occasions in Spain you have a short-term [inaudible] that we don't like. But this impacts negatively, let's say, in our pricing power that we always are paying attention to. That would be second and would apply more to Spain than to France.

And finally, we do know that these days, to do smaller than bigger works better. So I think basically, this is the case and it comes one by one, and depending on the analysis, we may choose one asset or the other.

Jonathan Nader: OK, thanks.

Pere Viñolas: Thank you, Jonathan.

Moderator: Thank you. We have a question from Veronique Meertens from Kempen Investment Management. Please stand by while we open your line.

Veronique Meertens: So thank you all very much for the presentation this evening and congratulations on the solid results. And just one question from me. I believe on the 6th of June in Paris, they are voting on a new urban planning. I think it could make mandatory for specific assets to transform 10% into social housing upon disposal or refurbishing. And I was wondering how this, if it actually applies to one of your assets, and what your view is towards this and how this would also impact, for instance, the Rives de Seine project that you just announced in the presentation?

Pere Viñolas: I couldn't understand very well. You are referring to the change in legislation that happened in Spain regarding residential? Is that what was your question? Because we could not hear you very well.

Veronique Meertens: That was about Paris. So they're voting on a new urban planning.

Pere Viñolas: Ah, the Paris one, OK. Yeah, yeah, yeah.

Veronique Meertens: About the 10 percent social housing in specific assets. Yeah.

Pere Viñolas: Yeah, the French word is 'pastillage', that's the word that they're using these days, no? Just for clarity, so for everybody is on the same page. What Veronique is referring to is recent changes in the urban planning in Paris, which means for a significant number of assets in Paris, that the future may be more linked to residential than to offices, which in many cases may be detrimental in terms of valuation, and that may apply to several hundreds of buildings in Paris. Now, what I can say today is that according to our information sources, there is no single impact of this new urban planning framework for our assets in SSL. So let's say that the assets we owned, the city believes that they'd better remain the way they are, let's put it this way. So as of today, what I can tell you is that we don't have any visibility or I could confirm that there is no relevant impact on our assets.

Veronique Meertens: OK, that's very clear. Thank you. And for instance, for that new project the Rives de Seine that's now announced in the pipeline or that you're looking into, would that apply to that one?

Pere Viñolas: Yes, it does. It does. Urban planning is not affecting Rives de Seine either. So we don't have, let's say, news that this may impact Rives de Seine or the rest of the assets of SFL as of today.

Veronique Meertens: Thank you, that is very clear. And maybe one other question. So operationally, Paris definitely stands out again. You see also the possible reasons that Barcelona and Madrid are lagging a little bit. Could you maybe highlight what you're currently seeing in the market from an occupational perspective?

Pere Viñolas: I think that what we see today is, as you just said, it's performing super strongly because simply there's no available supply for prime CBDs. So leasing and team meetings are quite boring in SFL because we are preparing very much for a future where there is nothing to happen. There's only 0.4 vacancy in grade-A buildings. Madrid has a slightly higher, 2.2, grade-A vacancy and the dynamics are very good. Barcelona, I think that you have to be maybe more specific. Grade-A availability is also scarce, so it's only 1.4. Maybe what's happening in Barcelona is that [inaudible] '22 act, the balance between the supply and demand is less strong than you can see in other cities, in Paris and in Madrid. And that explains why the occupancy rates are a little bit lower than that, but that also is in a framework where our occupancy in Barcelona has improved from 82 to 83. And I think that still CBD is attracting very much demand in Barcelona, so our occupancy is growing. But the dynamics of demand and supply in Barcelona, I think that they are not as strong as in Paris or in Madrid.

Moderator: Thank you. We have a question from Markus Kulessa from Bank of America. Please stand by while we open your line.

Markus Kulessa: Yes, thank you. I hope you can hear me. Yes, I wanted to follow up with this Barcelona in the not-so-tight supply-demand. Is this why the like-for-like is flattish in Barcelona? Maybe you can just explain the slide 12, because I understand the minus ten is due to assets going into development. But the flat like-for-like, I struggle to see where it comes from.

Pere Viñolas: OK, Carlos is taking this one, thanks.

Carlos Krohmer: Yeah, we have it, basically, you can see it on page 12. We are having solid price increases. So our gross rental income like-for-like in Barcelona is increasing by 4%, and in terms of pricing. But we have on the other hand, on a year-on-year comparison, first quarter of 2023 with first quarter 2022, a little bit weaker occupancy profile. So this is one is offsetting the other, so we are flat. So we are having basically at the moment a little bit weaker occupancy profile than the previous year, in the first quarter of the previous year.

Pere Viñolas: Although if I may add something, you know that our share in Barcelona is quite small. So we own a very small part of our asset management, which are based in Barcelona and as a consequence, a small change in one asset or two assets, that has an immediate impact in the numbers of a specific quarter. So probably this has more to do with the asset A or the asset B than the general trend in the market, probably, because it seems so small, different than in a much bigger market like Paris. It's more, I think, individually originated than a very, let's say, wide market trend in my opinion.

Markus Kulessa: Yeah, OK, clear. Staying in Spain, the releasing spread seems to flatten or to be flattish in Spain. Does it mean that at the year-end, post-indexation we might have a negative leading spread in Spain?

Pere Viñolas: Look, as we have always said previously in previous webcasts, we do not really guide on future release spreads. Obviously what we can see is, as Spain started much earlier on indexation because it was EPI-driven or is not driven, with higher upwards revisions, that we are catching up the quicker, catching up much quicker the release spreads that we could have seen in passing months and years. But I think we should also look at another interesting data point that is that the growth that we are experiencing in our office portfolio. And we have experienced just in a quarter plus 3% and in particular, in Madrid plus 8%. What's going to wait more at the end, we would see because we are continuing also in high indexation levels, but so far, we are sustaining a good positive release spread, and if you compare with other people in this first quarter, much better than many others. So this is what we can say about this today.

Markus Kulessa: OK. So the split on ERVs, so you have positive 4 to 8% ERV in Spain, in Madrid and Barcelona.

Pere Viñolas: In Madrid, it was 8%, especially highlighting Madrid, the ERV growth in one quarter of 8%.

Markus Kulessa: OK, thank you. Do you have an update -- maybe I missed it earlier -- on Méndez Alvaro? You say it's on track, but do you have any, any figures?

Pere Viñolas: No, Markus, I just said that it is going through its regular, normal, ordinary process. But no relevant news at this point. So the typical flow of visits and conversations, but nothing relevant at this point.

Markus Kulessa: OK, thank you. And just my last one, sorry, on the Paris change of regulation, which was addressed before. So you were just saying you don't have it, you cannot say that it won't have any impact. You just don't know yet how the law will look like and if there will be an impact.

Pere Viñolas: I wouldn't like to be too specific because I'm not involved directly, but as far as I know, there's been no disclosure yet of the specific list of assets that would be affected by this. But our information and expectations is that none of the assets of SSL is going to be impacted. It's still something that is not confirmed, but that's our best guess of where we might be in the short term.

Markus Kulessa: Thank you very much.

Moderator: Thank you. We have a question from Fernando Abril from Alantra Equities. Please stand by while we open your line.

Fernando Abril: Hello, thank you for taking my questions. I have three, please. A follow-up on like-for-like rental growth. So you posted in Madrid an 8% positive impact from volumes. But there has been 4%, four percentage points' improvement year-on-year. So I would like to better understand this 8% impact, which looks high for me. And also linked to a few points in Q1, which has been strong. I would like to better also understand the impact from asset disposals on your occupancy, especially in Madrid. And then the third question is on your revisionary potential. I don't know how much revisionary potential is left based on prices after the strong indexation that was carried out over the past few quarters. Thank you.

Pere Viñolas: Look, I will do a quick answer to this, and I think when it comes to more specific number crunching, happy to do a separate call with the IR figures. So on the like-for-like, I think it's very clear on page 16. What you can see here is the like-for-like gross rental income in the PNL of the Madrid portfolio is plus 16% and the split is plus 8% comes from pricing. Part, a significant part of this, 4.5%, is passing through indexation during the last 12 months. You have to take into account that this comparison is first quarter of this year with the first quarter of the previous year. But on top of this, we have also captured in addition to the indexation, rental growth that increases the gross rental income of our assets in Madrid. And then as you can see also on the vacancy figure, we have improved quite a lot the occupancy of the Madrid portfolio. When you look at the map, you are not going to find any single asset that is significantly below 90%. Mostly they are at 100%. We have also a page on this in our webcast. So we have also a quite important improvement in occupancy. And these two elements together give the 15%. On top of this, and this will feed further rental growth, we are continuing to sign good rents that will crystallise in future. So this is what we can say about it.

Regarding the more detailed P&L impact on the disposals, we have shown here already the figures, how they are grouped in the different blocks. For a little bit more colour on this, I would then suggest that you do a specific call with the IR, not to take too much time.

Fernando Abril: And the rest of questions. The impact from asset disposals and occupancy and also the [inaudible] potential lift coming from prices?

Pere Viñolas: I think this is also a very detailed question at the end, so the assets that we sold, a part of them were occupied, others were not fully occupied. The consequence of all of this is that we are today at a good rate, but we are basically at a good occupancy rate because we have let a lot of vacant space, not because we are not factoring out as well. But this you can further clarify the details if you want with IR.

Fernando Abril: OK, thank you.

Pere Viñolas: Go to the next one, please?

Moderator: Thank you. Our next question comes from Florent Laroche from Oddo BHF. Please stand by while we open your line.

Florent Laroche: Yes, good evening. Can you hear me?

Pere Viñolas: Yes, we can hear you.

Florent Laroche: Yes. Good evening, sir. It's Florent Laroche from ODO BHF. Yes, I have a follow-up question on what [inaudible] of data. So, as a consequence of your disposal plan and the increase of interest rates, so could you remind us what could be the expected growth of your cost of debt and maybe also how you are looking at the trajectory of your recurring EPS due to the disposal plan? So are you looking for a positive growth of your recurring EPS or are you looking more today at preserving your LTV ratio?

Pere Viñolas: Yes, thank you. Look, you mentioned something that, look, it's a good opportunity to refresh, and that is that when we divest and we go to a number of disposals, I think this is very accretive to the company. It is very good news. And of course, they have some impact on EPS and this cannot be perceived as if the company was performing poorly. So that's logical. But let me be more specific. We have been disposing of, as you have seen, €500M. After that, we are providing for a guidance of EPS for this year, which is not going down compared to the year before. So in other words, I think that the detrimental effect of the disposals on EPS is compensated by the higher strength of the market, and we don't see as a consequence any downside in the EPS. It will remain at close to €0.30 per share.

Another way of looking at this is that if instead of EPS, you look at the dividend per share, I think that we have a consistent policy of growing our DPS. Traditionally, it has been always double-digit. We made two exceptions. One was in the year of COVID, the other has been now, which we are only doing 4% growth. But I think that anything we may do on the disposal side is consistent with EPS dividend per share growing. And as I said, DPS in the short term, which is a maximum we can say today, the guidance is a good one at the level that we can mention.

Going forward, I think that what will happen to our P&L is, as you mentioned, very much driven by the management we have done of our debt profile, which mainly means that today you have a cost of debt of 1.6, 1.7, and then we have all of our debt fixed and hedged for a number of years. And then you have a pre-hedge for the year after, which means that what we know today is that the cost of debt, that is 1.6, and Carmina may step in and correct me if I'm not too precise, but will go up in the next three, four, five years, but to a maximum of 2.2, 2.3. So if anyone would do a projection of our cash flows, they should do so with the assumption that our cost of debt for this period will remain at this very low level and less, and this will be for the next five years. After that, let's not forget that we have pre-hedge after the initial details of a very relevant part of our debt, which means that our cost of debt later on will also, let's say, be much more competitive than the rest of the market, and will have the consequences that we may imagine for EPS. But we cannot be so specific for the EPS so much in the long term.

Florent Laroche: OK, thank you very much.

Pere Viñolas: Thank you, sir.

Moderator: Thank you. We have a question from Beltran Palazuelo from DLTV Europe. Please go ahead.

Beltran Palazuelo: Thank you very much for your presentation. I have one question. Pere, you were mentioning that if you, if the company was able, that maybe there would be more divestments. My question, my philosophical question is, at some point in the near future, if the company is able, let's say, to divest a good magnitude of assets with that, apart from, let's say, reducing debt, is there a possibility that if the investment opportunities are not as attractive as buying back shares that the company at some point, if it's able to divest a certain amount of assets, there's a big buyback? Because it seems that, let's say, the values of what it's trading against your current NAV or let's say, or even if you put the [inaudible] at -20%, it's still, let's say, very depressed. So is the company going that way or it prefers, let's say, to reinvest the possible proceeds of divestments to keep growing the FFO, long term?

Pere Viñolas: Yes, a good question and also very difficult to answer. First of all, let's do the following statement. We are very much comfortable with our assets for the longer term. We don't see that we own any stranded assets, assets that are going to suffer, assets that are not going to generate a good unleveraged IRR. Most of them, they are. So on the long term, we are comfortable with what we own. But what happens is more practical. Today, if we sell, two things happen. First, we reduce our debt. At the moment, there is a lot of sensitivity about this. Maybe at a moment with less sensitivity, this is not so much appreciated. But at this moment, we know that this has an impact of enhancing the perception of our shares.

And number two, it's also a function of the markets. If the markets are pricing us where they are today and we are selling that NAV, I think that, as I said before, it's a bit of a no-brainer. So there are two reasons for selling today if the market is there. Now, as you are suggesting, it's true that there may come a moment where you can say, "I am already in a situation where deleveraging is not accretive for shareholders. I could think about different uses for the proceeds, and this could be either investing in assets or buying back the shares." I think that what would be our answer if we came to that moment, it's still unclear. But I would say that today, the gap between the stock price and the selling price of the assets being what it is, that it's quite an incentive to go in the direction of buying back the shares.

But I think that it's a discussion that's still too early for us. I think that as of today, we are not in that mood. We are in the mood of slightly enhancing the capital structure, so protecting the company more than anything else. And so therefore, this discussion will come at a later stage. As of now, we see ourselves mainly as being simple net sellers in order to produce some upside in NAV and additional protection on our capital structure.

Beltran Palazuelo: Thank you very much. Maybe if I may, a follow-up, sir. My question is, is the company, let's say, prepared if there was an opportunity to divest 1B in assets at, let's say, plus [inaudible], is the company prepared, let's say intellectually, to, let's say, to reduce 400M in debt and to buy back 600M in shares? So is the company prepared to be, let's say, smaller, but, let's say, with an enhanced NAV, or not there yet?

Pere Viñolas: Yeah. Intellectually, as you say, what you say makes sense because in the end, it's about creating value for our shareholders. So we don't have any problem in going in this direction if market circumstances are there. But as you say, it's at a more, let's say, intellectual level and a more strategic high-level view than regarding the short term. But I agree with you.

Beltran Palazuelo: Thank you very much, and all the support from my side. Thank you.

Carlos Krohmer: Thank you.

Moderator: Thank you. And lastly, we have a question from Marie Dormeuil from Green Street. Please stand by while we open your line.

Marie Dormeuil: Good evening. I just had one question with regards to the Rives de Seine project. Just want to understand a little bit better. So I assume that the tenant is vacating the assets. So do you need a catalyst, for example, a pre-let to launch the redevelopment or will you go speculative? The reason is because, potentially, this asset is a little bit outside of the very prime areas of the Paris market. So just want to understand here.

Pere Viñolas: Yeah. So first of all, our outlook, our agenda is that we will probably come with a more precise agenda for Rives de Seine in the presentation for the first half of the year in July, because at this moment, we're going still through the process of evaluating all the details of this project in the future. For many years we knew that the tenant was leaving. So we know that there is a potential of doing a beautiful project there with good returns, but I think that it will be more specific in the month of July. Having said that, as of today, to answer your question, the current situation of this project is that it is speculative as we speak, which is something that we believe that we can live with. So at a very high level, with a lot of distance, the way we see our balance sheet is that we are managing around 12B. Our, let's say, strategy for the long term was that 10% of this could be, let's say, the more risky environment of value-added projects. What's happening now is that because we are managing the current environment, we've been delivering this pipeline and this percentage of value-added on top of the balance sheet is almost nothing. So in this context, to have a little bit of a speculative risk for this project in the framework of the goal of the balance sheet, I think that is something that we can have. But yes, I confirm that as of today, it would be speculative and I think that we can be more detailed about this project probably in July.

Marie Dormeuil: Thank you.

Pere Viñolas: Thank you.

Moderator: Thank you. That was our last question. I would like to hand the call back to our speakers for any final remarks.

Pere Viñolas: Thank you for your attention today, particularly for those in Madrid today. We understand that maybe it's not the best day. So thank you twice for your attention. We will not repeat it. I think that we are very happy to share with you this set of results and to have your attention here today with us again. Thank you very much and have a good day.

Moderator: Thank you. Ladies and gentlemen, this concludes your conference. You may now disconnect.