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Inmobiliaria Colonial - Third Quarter 2023 Results Presentation

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PRESENTATION

Operator

Welcome to the Inmobiliaria Colonial Third Quarter 2023 results presentation. The management will run through the presentation, which will be followed by a Q&A session. If you request to ask a question at any time during the presentation by dialling *1 on your telephone keypad, you will be placed into a queue. I am now pleased to introduce Mr Pere Viñolas, CEO of Inmobiliaria Colonial. Please go ahead.

Pere Viñolas

Thank you and good afternoon to everyone. This is Pere Viñolas speaking. I will run you through the presentation of the results together with Carmina Ganyet, Chief Corporate Officer; and Carlos Krohmer, Chief Corporate Development Officer.

I would like to start with the highlights of our presentation on page four of the presentation that we will be following. First of all, I'm pleased to say that the third quarter has been an outstanding quarter again for us in terms of our performance. First, we've seen a strong growth in net rental income. It's a strong growth, which means an 11% growth in terms of like-for-like, which means a good figure in absolute terms, but also in relative terms to the peers.

Our EBITDA growth, recurring EBITDA growth is 13%, reaching 233 million compared to the 207 year-on-year. And finally, the EPS is of course, showing also a healthy growth of 8%, reaching 23.8 cents per share. So, all in all, a strong growth in net rental income, EBITDA, and EPS in this line. Let's say that accordingly, we are revising our guidance upwards from 28 to 30 cents – that was the previous guidance – to approximately 31 cents as we will discuss further in the presentation.

Basically, the driver behind this strong growth in our net rental income, EBITDA and EPS is a very good performance of our assets, both in volume and rental growth. The letting volume has shown an outstanding performance. We have signed 113,000m² year to date. That is equivalent to 49 million of annualised rents. This is much higher than a long-term average. So it's almost a record year the path that we are showing right now.

As a consequence of this, the group occupancy is at the end of September at 97%, with Paris still fully led at 100%. And this outstanding performance – and it's not only in quantitative terms, but also in qualitative terms – meaning that the nature of the contracts and the clients that are signing with us remains very high, with a strong tenant demand coming from professional services, luxury brands, companies, and similar kind of high-level clients.

I said that the performance has been outstanding in terms of letting volume. Also, it's been very good in terms of rental growth. The ERV growth that has been signed up to the third quarter of September of this year is showing an 11% growth, 12% in the case of Paris. That means that the rental growth is showing acceleration, and behind that growth is rental growth itself but also, of course, the solid capture of indexation that is full passthrough of inflation at this time of the year.

And of course, this healthy rental growth and letting volume is done also in a framework of low carbon assets, which are attracting these high-quality tenants at maximum rent. That's the main point regarding, let's say, the P&L. In the meantime, concerning the balance sheet, we've been following our policy of disciplined capital structure. We've been keeping on disposing selectively of the assets. The third quarter of this year, we have sold €100 million of additional disposals. That puts us very close to €600 million of disposals year to date, and at very interesting valuation levels. Year to date we are basically selling at appraisal value.

The particular disposals that we have done during the third quarter have taken place at a 12% premium to gross asset value. That, I think, proves that we've been quite successful compared to market performance and particularly showing the high degree of liquidity, and not only liquidity, the market valuation attached to our assets. On the other side, liquidity remains very healthy – 2.7 billion – almost 600 million more than a year ago and with a healthy hedging strategy that is ensuring that interest rates remain below 2.5% in the long term.

These are the highlights and now we'll go into the details behind this data. But just to give a flavour of the rationale of the drivers of what has happened during this quarter. We firmly believe that the main driver of this is the flight to quality trend that we can see in the market, the polarisation, which is increasing as a fact, the fact that many companies have already decided that they want to increase their presence in locations where the experience that is being provided to the employees is outstanding. That happens to be in places where the vacancy is extremely low, where scarcity is a major issue, and where the vacancy is close to zero in Paris and below 2% in Madrid and Barcelona. And therefore, this is the main driver. And happily, the market is starting to differentiate between different submarkets that probably deserve different view from anyone's point of view.

The letting performance, as I said, as a consequence, it's been outstanding. I gave the main numbers in terms of square metres signed, annualised rent and rental growth, but just a few examples. Velázquez 86, in Madrid, has been signed above €40 per square metre per month – so, 41. Washington Plaza, to put an example about France, we see current tenant taking up additional space at €1,000 per square metre. In Cloud, again in Paris, we've seen during this quarter a 12-year lease signed with a luxury goods company for more than 9,000m^2 at this top rents. And finally, in Champs-Élysées, a seven-year, non-cancellable turnkey lease signed with Adidas for more than 3,400.

Page six is just an illustration of what our equity story is. You can see our current situation in Paris and in Madrid, and here you can see what is happening in our sub-market of aspirational office and what is the kind of occupancies that we see. And in page seven, not only the occupancy, but just to share that this performance is happening with very good KPIs in terms of rental growth and rental level. You can see the 12% rental growth in Paris as a very, let's say, outstanding number. €1,000 as a maximum rent signed year to date in Paris. You can also see Madrid performing quite well – 8% rental growth. And as I said, €41 per square metre per month already signed in certain assets. So, a very good set of numbers with a rationale that is based on polarisation as a main driver of this outperformance.

With these introductory remarks, now I will ask Carmina to step in and to comment on the financial performance of the company.

Carmina Ganyet

Thank you, Pere. As usual in these sections, we are going to detail the main indicators and drivers that underline this strong evolution of the results. The results of these three quarters are described in the first place by a strong growth of the cash flow. Recurring net profit increasing 8% year on year – 19% without considering the asset sales. And the same growth year on year is shown on the EPS, up to 23.8 cents per share. The main driver of this growth is mainly the EBITDA increasing 13% and 19% continued operations in line with revenues with a growth of 8% like-for-like up to €279 million.

Secondly, the strong cash flow. The strong cash flow is supported by an extraordinary operational activity with a letting activity of more than 113,000m², meaning an outstanding occupancy of 97.4%. This letting activity has been closed at exceptional conditions, as you can see, which represents a rental growth of 11% above inflation, demonstrating again the pricing power of our portfolio, benefiting of the polarisation trend as Pere mentioned. Additionally, all the contracts have been updated, as you know, this year to an average index in between CPI and ILAT in France of 5%.

And finally, a solid balance sheet. Due to an active management of the balance sheet carried out, as you know very well, in a permanent basis, we maintain the investment rating of BBB+ by S&P. We continue to keep as well a very strong position of liquidity, eliminating any refinancing risk. And as well, we maintain a fixed cost of debt of 100% in levels below market of 172% spot. And for the following years, as you know, we are well below market levels thanks to the prefecture [ph 00:13:27] structure, which ensures a debt coverage ratio according to rating agencies.

In the following page, you can see the most relevant indicators more visually, that shows the growth of Colonial cashflow and the resilient profile of our portfolio that I was mentioning before. If we analyse the recurring results, we see that it increases by 8% – 19% without taking into account the sale program. The building block shows the positive contribution of the continuing operation of the portfolio, €34 million.

On the other hand, the negative impact of the disposal of non-strategic assets, 13 million, and as well the negative impact of the financial costs of only €12 million. Basically, this impact of the financials due to the rates effects. Remember that in September 2022, the financial cost was 1.4 compared to the existing cost of debt of 172%. The market, as you know, has increased more than 300 basis points, while the cost of Colonial, the cost of debt for Colonial, has only increased 30 basis points.

Consequently, due to the strong cash flow and also due to the strong operational performance, the full-year EPS is being revisited up to circa €0.31 per share, beating the upper range initially released in the previous communications.

This strong EPS is mainly based on the strong growth on gross rental income. First, back on the strong like-for-like growth of 7% of the operational portfolio – €18 million. Secondly, the entry into operation of the projects contributing with €28 million, 11% growth. And on the opposite direction, as you know, the sale of non-strategic assets has had an impact of €29 million. As a result of the portfolio of higher quality, it has shown year on year an increase of gross rental income of 7%.

And where has been this growth and why? I am on page 13. It should be noted that the 7% rental growth has been positively impacted by a great performance in the Paris market, with a 13% rental growth. In comparable terms of the portfolio, the three markets have performed very positively, with an extraordinary evolution in Paris and in Madrid. This extraordinary like-for-like growth of 8% is basically due to a combination of rental growth thanks to the scarcity of grade A assets in the markets where we are operating. The price impact also includes the indexation effect thanks to the quality of the contracts and clients, and finally the improvement in occupancy, especially in the Madrid portfolio, as you see in these charts, in details in page six.

If we look in perspective, the rental growth is being accelerated, as you see here in detail in this page. You can see the extraordinary year of the rental growth and net and growth compared to the last three years. And moreover, you can see the growth capacity of rentals beyond indexation effect. So very healthy levels of growth in the last quarter as you can see on this page.

As you well know, Colonial is characterised by an active portfolio management in order to recycle capital and strengthen the capital structure. In a market as narrow as the current one, we have been able to sell almost €600 million - €574 million confirming valuation. The operational close in the last quarter adds additional €100 million to the disposal program, with an average premium of 12% to the last reported gross asset value.

As you see in this map, the three disposals are non-strategic, a land plot in the periphery in Madrid, a secondary asset with 17% vacancy and a small asset also in the secondary area. With these new disposals, we have been expanding the divestment plan that we shared with you in the last presentation of results. According to market conditions, we believe that these results that have been achieved with this disposal program is very outstanding according to the market conditions. We have confirmed valuations, we have reinforced the liquidity and the debt positions, and we reinforce as well the quality of our portfolio.

As we have been sharing in each quarterly presentation, Colonial has been very actively managing the capital structure and therefore the debt, and as well successfully covering the interest rate and any refinancing risks that we may face. In this sense, there has been a decrease in net debt of 240 million in the last 12 months, with a loan to value of 39%, according to the last appraisal. We have also a fixed interest cost of debt at our current levels of 1.7%. And additionally, and as you know, we have explained in the last presentations, as a consequence of the [inaudible 00:19:14] close in 2021 of 50% of the debt at rates of 0.67% [ph 00:19:20], which represents a mark to market position today of the derivatives of more than €300 million. We can guarantee a financial cost in the coming years below 2.5%. Finally, as you see here, the liquidity position remains strong and healthy, covering any refinancing risk of the future, debt maturities.

And in the financial management, another important milestone that demonstrates the ability of Colonial to have access to the financial markets has been the signature of the new revolving facility of more than €800 million - 835 - under very favourable conditions and providing additional liquidity, as well, to the Group. This revolving credit line is qualified as a green loan, reference to a very ambitious green KPI that allows us to maintain the strong position from one hand and confirms as well our strong commitment on the ESG strategies of the Group.

Pere Viñolas

Thank you. So now we enter into the next section and Carlos Krohmer will walk through the [? 00:20:29] performance in the operational side.

Carlos Krohmer

Thank you very much, Pere. I'm on page 19. As Pere mentioned at the beginning, we have signed 130,000m² [inaudible 00:20:41]. This is extremely large, because if we take into account that we are already several quarters at very high occupancy levels, we have really not that much space available. And even though we have signed a lot and almost on previous year levels, because previous year we signed 24,000m² in the Biome project. If we take this out, we are at the same levels than previous year. That was a record year.

When we look at the breakdown of this, close to 50% is luxury industry, tech and media, professional services, and we have signed with an average maturity of nine years – so, extremely strong. Mainly on the Paris portfolio. An example that is nice to be highlighted, we have recently signed with a cosmetics company that was already in the building extra space and at a record rent at the levels of 1,000. So people are taking more space in our buildings at record rents.

And this leads me directly to page number 20 that is our rental growth profile, which are the levels of rents that we are signing in our contracts. And as you can see here, the market rental growth is accelerating. In first quarter, we signed rents 2% above the market rental level of December 22; in Q2, 6%; and now at 11%. So really extremely outstanding. We think it's one of the highest levels in the market, and it's driven mainly by Paris, but we are also seeing a very strong acceleration in the Madrid market. So very, very strong rental growth and across the board.

When we go to the next page on page 21, we see how the occupancy profile is evolving. And again, we have improved our occupancy, that was already at very high levels, in 97.2% to 97.4. We have improvements on all the levels year to date and especially a very relevant acceleration in Barcelona. In terms of absolute levels, Paris at 100% and Madrid at 97%, where at the beginning of the year it was at 96%. So really, I would say structurally we are talking about a full occupancy situation and just a little bit of structural available space.

Which is the space that is available? We can see a zoom of this space in page 22. So today on the office part of our portfolio, that is almost the full portfolio, we have 2.8% of availability. In Paris we have nothing available as of today, so this is basically concentrated in 0.7 percent availability in the CBD of Madrid. As of today, this ratio is already lower because we have fully let, two weeks ago, the Velázquez building. The CBD of Barcelona, the availability is just 0.3%. And then we have three assets. One of them is entering into an operation of a renovation program, concentrating 1.7% of vacancy in the Barcelona market. So a very healthy situation with quite interesting available product.

If we then go to the next page, from the operating portfolio to the project pipeline, as of today, out of the eight projects that we have, seven are fully let, 100% let. The main highlight of this quarterly results is the full completion of the full letting of

Velázquez. We have let the last floor at a record rent of 41, and I think we can say today that Velázquez is one, or maybe the building with the highest average passing rent in the Madrid market. So it's one of the best buildings in the market.

What will come progressively into operation in the coming quarters in 2024 is the Méndez Alvaro Campus. Just to remind, we have a part of this that is office and then a part of this is residential. On the office part, we have today already very advanced conversations for more than 10%. And we have, in addition to this, a number of large clients that are really visiting several times the building with many interests. So we are really in a good mood on the commercialisation of this project.

Last point on page 24. As Pere mentioned at the beginning, the GRESB results have come out just recently. We have again increased our standing portfolio rating. We are now at 94 on 100 points. This is extremely high and puts us at the top three level in listed Europe. And we confirm the five-star rating for the fourth year in a row. And on the development benchmark, you know that we also do projects. We are even higher. We are at 98 out of 100 with a very relevant increase since we started to participate in GRESB, and also a very relevant increase year on year.

In addition, you know that we are really in the business of creating low carbon destinations. This has been also officially and by third party awarded with the BBCA. This is a label of low carbon buildings in France. We have obtained 100% of low carbon building certification for the projects in our French portfolio, and Colonial has been included in the newly created ESG, IBEX ESG index, that we are also quite proud of.

Pere Viñolas

Thank you. So some final remarks on my side. Well, first of all, on page 26, just to state the fact that the machine Colonial is working and delivering very well in terms of cash flow and EPS delivery. In the end, what we see is a multi-layer cash flow growth. First of all, with the passthrough of inflation showing maximum power, maximum passthrough, a real inflation hedge, as we’ve seen before in the figures that have been shared by Carlos. Second, moreover, rental growth in terms of like-for-like, that it's very high in absolute and relative terms. And moreover, additional cash flow coming from projects and the acquisitions that we've done in previous years.

All of this is transformed into a recurring EBITDA that is growing 13%, and as it has been stated before, it's remarkable that this EBITDA is growing 13% if we consider that we've been in a divestment mood in recent months and years, and therefore this could be revisited. And to say that, if we look at this from a continued operations point of view, the cash flow would be increasing 19%, which would even be much more.

The earnings per share, of course, as a consequence, also is showing a remarkable performance – 23.8 cents per share at the end of September; 8% year on year; 19% if we were to adjust by the impact of asset disposals. A very strong performance and therefore, as I said at the beginning of the presentation, we revisit our guidance for the full-year EPS from the previous 28 to 30 cents per share to circa 31 cents per share.

As I said at the beginning in my introductory remarks, I think that what's going on is a clarification of the performance of the market, that more and more it is clearly showing the different profile of the different sub-markets. Simplifying what you can see on page 27, at left, is that the different occupancy in the grade A CBD kind of places, 0.3% in Paris, 1.7% in Madrid, compared to a less attractive performance of the rest of the market – 8% vacancy total market in Paris, 12% vacancy in total market in Madrid – is driving the prime brands in a different way, while rents remain not so much performing in the outer M30 or in the outskirts of Paris. If we look at prime CBD markets, we already can see an accumulated rental growth, which is relevant both in Madrid or in Paris as you can see in this chart.

And Colonial happens to be mainly in the prime CBD. And therefore, we enjoy the results of this strategy, and we are showing an occupancy of 100% in Paris and 97% in Madrid, and a rental growth of 12% in Paris, or 8% in Madrid. And this, let's say, different performance and polarisation of the market, of course, means that our GRI like-for-like growth is showing an absolute number, 8.2%, which is remarkable. But also, that is different to the peer group average, or the peer group mean.

The other benefit from the positioning of Colonial in high-quality assets is when we look at the investment market. As you know, we've been selectively divesting in the last 12 months; we've executed €600 million. That is mainly focussed in Spain because the nature of the market, which is more focussed on a smaller size kind of assets, makes it easier to implement a disposal strategy. But anyway, it's relevant to note that in Madrid market, where there has been, according to market sources, a total divestment or total volume of transaction of less than a billion, Colonial is representing, roughly speaking, half of everything that has happened in the investment market during the year.

So it's obvious that we have to conclude on the high liquidity of our assets. And since we've been selling this at appraisal value, but more recently at premium, as you can see, we also have to conclude that not only do we own liquid assets, but we own assets that are perceived from a market valuation point of view, very well at the moment of disposal. So not only are we happy about the performance of our ordinary course of business and the cash flow generation. I think that the divestment side, particularly in Spain, we think so far it's been quite healthy.

My final remarks, page 29 are a little bit to revisit again some of the highlights that I've been sharing through the presentation. First statement, Colonial’s letting performance continues at historical high volumes. So at the moment where the office as an asset class is challenged, when you talk about a specific kind of asset class as grade A stock, the scarcity generates a race to quality that is accelerating bifurcation. And this is happening across Europe. This is because central locations are benefiting from short commuting times, which is a key factor for office usage. And not only commuting time, but also experience and cultural benefits of central prime office on well-being are proving that are here to stay.

As a consequence of this, Colonial’s assets are capturing above-average market rental growth. That's the other statement that we can say coming from the experience of the year so far. Rents are rising with accelerating momentum, double-digit ERV growth in Paris, for example. Colonial’s net rental income growth in terms of like-for-like growth is among the highest in Europe and we've been therefore revisiting our EPS guidance up to the levels of around 31 cents per share, not only on the assets that are already in place, also the creation of top products is proving to deliver extra value and extra cash flow.

Basically, we're proving that Colonial is able to transform urban centres with amenity-led space. You have the examples of Louvre and Madnum, and this strong track record of urban transformation with outstanding capital value gains is the other evidence of our year so far. And this, let's say, high-end kind of performance is not only on the quantitative side, it's also on the quantitative side and in particular, when we talk about sustainability, where low-carbon destinations are also proving to outperform the market in terms of occupancy and rental levels.

And finally, we remain with a balance sheet with financial strength and discipline, with low cost of debt, debt that is 100% hedged, that for the next two years will remain hedged. And this is very important, not only today but at very high levels in the next four years, that means that the spot cost of debt, which is today 1.7, will remain very low for quite a long time. And in this framework, our divestments are taking place, as I said, at a good level and in line with appraisal value. So all in all, a good set of results for the third quarter. The operating performance, we believe it remains quite solid. And that's what we wanted to share with you today.

So, thank you, and now, as usual, we'll be open for any questions you may have. Thank you.

Q&A

Operator

Thank you. Ladies and gentlemen. The Q&A session starts now. If you wish to ask a question, please press *1 on your telephone keypad. Please be informed that there can be a short silence while questions are being registered. Thank you. And your first question will be from Markus Kulessa at Bank of America. Please go ahead.

Markus Kulessa

Hi. Thank you very much, and congratulations. Two questions. First, on the revolving credit facility you signed. Maybe you shared it already and I missed it.? What is the cost of the drawn debt for this facility?

Carmina Ganyet

Yeah. The cost is swapped, plus the spread, and the spread is below the bonus spread that we see in the market. So it's in the range of 120–130 depending on the KPI.

Markus Kulessa

Okay. Thank you. Then, do you have an indication – I read somewhere that you have disposals signed, but not yet executed? Do you have a volume of a disposals already signed, which might come in Q4?

Pere Viñolas

No, not yet. We are working on the interest that we have received from several investors in certain assets, but we are not disclosing any evidence on this yet, no. We believe that we'll be able to show additional disposals, but we cannot be specific at this time.

Markus Kulessa

Okay. Looking forward to it. Then, I wanted to ask you if you are looking at raising secured debt, maybe on the cost, the spread which would be similar to the one you just gave me, but especially on your SFL part because, as you probably are aware, your EPRA LTV is pretty high because of the treatment of your minorities on the asset side, and not on the liability side. Is there anything you're looking to do to address this and maybe raising more secured debt, especially on the Paris assets?

Carmina Ganyet

No. We treat the balance sheet as a group. You know, we have 98% of SFL, and, as well, the rating agencies are looking at the balance sheet as a group. We don't have today any secured debt, so all of the debt is corporate through bonds and through long-term club deals. But the fact that we manage the balance sheet as a group without putting additional leverage for any reason of KPIs or loan to values, that has been decided. So this is why we stick with the criteria that the rating agencies are looking at.

Markus Kulessa

Okay. Thank you very much.

Operator

Thank you. Next question will be from Ignacio Domínguez at JB capital. Please go ahead.

Ignacio Domínguez

Good afternoon and thank you for taking my questions. Two questions, if I may. Firstly, how do you think the recent increase in bond yields could spread out to your portfolio valuation? And how much yield expansion do you think is left in your portfolio? Secondly, do you plan to continue with your asset divestment program in 2024? And if so, would these proceeds continue to be used to reduce leverage? Thank you.

Pere Viñolas

Yes. Well, we believe that 2023 is being a year of repricing of the assets in the market. Our yield has already moved up, roughly speaking, 60–70 basis points. I think this is not finalised. I think that where exactly the market will finish this adjustment, of course, is unclear at this moment. We believe that we've gone a long way, but probably not finished yet, and we may see additional components of repricing by the year end.

Having said that, what I wanted to highlight is that this pricing adjustment is a result of nominal interest rates that go up because inflation goes up. If we think about it, that means that as of now, we are observing the first leg of this adjustment happening with this yield expansion happening. This may end soon, not so soon. But as we said, we've gone a long way, but this is a one-off. Once this is done, this is over.

And then comes the second leg, which is the fact that we pass through in our cash flows the inflation as is happening. So therefore, it's a kind of a V-shape kind of performance, the one that should be impacting in our valuation, not also in our valuation but in the valuation of our sector. But to answer your question, as I said, we believe that having gone a long way, this is not finished yet and we may still see further adjustments by year end.

The asset divestments in our company will remain a driver of our strategy. As we have shown up until today, it's been quite healthy, the way that we've been able to handle this, with divestments happening in very good terms. In other words, at implicit NTAs. Very attractive, in line with the NTA that we have. So if you can do more of this, it is not only that you are improving your capital structure, with a healthier LTV, it is that compared to capital markets valuation, you are creating value every time that you dispose of an asset way above or way higher than where the price of the stock market is in capital markets today. So we will keep on doing this.

You can see that we are not specific about assets or figures, because I think that right now you have to be talented to find the right windows, the right moment, the right way of managing the market. So far, I think we've done quite well, and we will remain like this, being mainly opportunistic about things that can be done without attaching a specific number or a specific name to this strategy.

Carmina Ganyet

And Ignacio, there was a question about the use of proceeds to cancel the debt. As of today, we would like to keep past liquidity and not to do any liability management on another use of proceeds. First, because we don't have any stress about ICR according to the cost of debt we have today. And as of today, the decision has been keeping the liquidity, because always it's an option of value to keeping the liquidity today.

Ignacio Domínguez

Okay. Thank you.

Pere Viñolas

Thank you, Ignacio.

Operator

Next question will be from Adam Shapton at Green Street. Please go ahead.

Adam Shapton

Hi all, thanks for the presentation. Hopefully you can hear me clearly. A couple, probably for Carlos. One just on Méndez Alvaro. Two things. The market rent growth you've seen in Madrid. Do you expect to capture that in Méndez Alvaro as you lease that up? Compared to what you were underwriting 12, 18 months ago for that. And then secondly, on that, do you expect to be fully let by delivery or are you a bit more relaxed about waiting to capture further rental growth there? And then one separate question. Are there any specifics about the negative releasing spread in Q3 in Madrid? Was it certain assets and certain leases. Any colour you could provide on that would be helpful, please.

Carlos Krohmer

Okay. Yeah. I maybe start with the second question before going into the pricing. The project will be progressively delivered by phases, not all in one, and it's a large project. We have to see how quick this will be let up. But we are also not in a super hurry. So this means we are seeing extremely good demand. A lot of people visiting the asset. We are in very advanced conversations on more than 10% of the office part, and what we are seeing today is that the rents are very good and well above our initial underwriting.

So we are really prioritising high quality clients with good rents, and this means sometimes to wait a little bit more, but then get a big chunk of demand with a very good rent. But at the moment, the momentum there is very, very encouraging. Honestly, reasonably higher than we could expect at this moment because the asset is not yet finished. And so this is very good. On the releasing spread, I did not get very well the question, if you just could repeat on that point, what was your question?

Adam Shapton

Yeah, sorry. Just on Madrid releasing spreads on page – is it page 20 of the presentation? – just recorded -2%. Was that a specific asset? A bit surprising to see a negative number there.

Carlos Krohmer

Yeah. Good question. That you put at this quarter, the release spread is not really a very meaningful statistical data because it's just in one building. It's one building where this happened. So a very low activity point. It's a building, Arturo Soria, so not really in the super CBD area. And yeah, there we had a slight correction to the passing rent. Indexation has been more rapid and earlier in Spain. And this has closed a little bit more the reversion gap. But it's not really statistically relevant because it's just one asset.

Adam Shapton

Sure, sure. No surprise there. Okay. Thank you, Carlos.

Operator

Thank you. And next question will be from Ana Escalante. Please go ahead.

Ana Escalante

Good evening. My question is regarding your comments on market rental growth. So if I understand that correctly, you are saying that market rental growth is accelerating; therefore, the growth in market rents has been faster in third quarter versus second quarter. But when I look at your numbers - and correct me if I'm wrong because there is maybe something

I'm missing here - you're saying that you signed rents 3% above December ERV in first quarter, then 7% and then 9% for offices. So the way I interpret that is that effectively the rental growth decelerated in the third quarter. Could you please clarify that?

Carlos Krohmer

If we go on page 20, you can see it. On page 20, you see the rental growth. So you see how compare the signed rents with the ERV at the beginning of the year. And what you can see is for total Group Q1 23, 2%. And for the office part, that is roughly almost all of the group, 3%. Then if we go to Q2, we see 6% and 7% for the office portfolio. And then when we go to Q3, we see 11% for the whole portfolio and 9% for the office portfolio. So we are having every single quarter, a higher growth on the ERVs that we have signed in our portfolio. So we have an acceleration of the ERV.

And also, this is a data point that is not here, but when we look at the maximum rent signed, we have now reached €1,000 per square metre a year in Paris, and we have signed at a record rent above €40 per square metre a month in Madrid, the Velázquez building. So maybe I did not understand your sub-question, but here the figures are quite clear.

Ana Escalante

Yes. So my question was that yes, I understand that the rents at which you are signing new leases are accelerating, but the growth at which that rents are growing is not necessarily accelerating according to these numbers, right? So I'm talking about the growth rate in market rents, not market rents in absolute terms. Because if I compare the first quarter versus—

Carmina Ganyet

Sorry, Ana. Please, excuse me. Sorry.

Carlos Krohmer

It’s the growth of the growth in itself. I think in today's world to report an 11% growth on ERV, I think you have to look around a lot if you find any other company that is signing at these levels. And if you want to say, yeah, from two to six or from six to eleven, I'm not really sure if this is so much the point, because what you also— I don’t know.

Carmina Ganyet

But, Ana, sorry, to clarify, the facts show that the contracts that we have signed in the three quarters at 11% more the rent than the ERV December 22. If you compare these levels of rents, the new contracts from the third quarter, if you compare to the first quarter, in the first quarter, only was 2% above the ERV. So in fact, the rents that we are signing now are much higher than the rents that we have been able to sign in the first quarter. So the consequence is, yes, in our portfolio, because of this polarisation trend and the scarcity and the lack of offer, we are able to increase rents in the same buildings.

Ana Escalante

Okay. Thank you.

Operator

Thank you. Next question will be from Fernando Abril at Colonial. Please go ahead.

Fernando Abril

Hello. Thank you very much for the presentation. I have a couple of questions. First, again on rental growth. Probably the thing I don't really understand is when I look at your slide number 27, I find out that the Paris rental market is fairly flat at 1,000. But on your side, you are accelerating on new rents. So I guess this is probably because of your portfolio outperforming the market. But I think that in the medium to long term, I think it would be very good news if the market also grows. So, I don't know, your comments about the rental market in Paris itself, why is it flat year to date?

And the second question is, again, on disposal. So, I don't know, but if you find a strong appetite for one of your prime assets in Paris at a very attractive price, let's say, would you be considering selling it or instead you prefer to continue on doing bolt-on disposals? Thank you.

Carlos Krohmer

Well, again, first of all, I think when you look at the prime market rental data, you have to keep in mind that when brokers put this data point, is the three transactions with the high rent that have been signed in the market. Something like that is a very limited amount of pricing really at the top levels. And yes, maybe we have now a second quarter. We are remaining at an ultra-high level of 1,000.

But having said this, what you can see also is that the availability in the Paris CBD market is at 0.6% and the demand for high-quality space is very healthy. And if we would do a breakdown, a further breakdown, of the demand that is not in our presentation, for large floor plates the demand is strongest. And as you may see when you look at our portfolio progressively in the last years, we have concentrated on assets with large floor plates.

And this leads to situations that, for instance, in the Cloud building, that we reported this in the second quarter, we had a tenant that left the building, and it was at a level of below 800, and it took us just six weeks to relet this building and at a level well above and close to 1,000. So really our product is getting extremely strong demand and success in the market. And all of the contracts that we have been signing, we have been signing in excess of the market rent that the appraiser has put on this building, and in excess in terms of double digit, 11%, is really super strong.

So coming back to the market, it's very scarce, especially if you then cross grade A with large floor plates, it's absolutely non-existent. So at the moment that we put something on the market, we have really a very strong success. And for this kind of product, the rental growth, on the perspective of rental growth, we remain very confident.

Pere Viñolas

Maybe there was, Fernando, a second part of your question. Well, first on the first one, I would not elaborate just a general theory of market rental growth based on the numbers that we see here. The only thing we wanted to say is if we look at what we sign, which is factual, which is actual data, it happens to be 12% above what were in the ERVs of our evaluations at December of last year, and that’s a healthy indicator.

From this, to extrapolate where do we see the number of rental growth in Paris or in Madrid? It's always difficult because we are based just on our very selective evidence of our assets. So I would just remain with the fact that these are numbers. The numbers that we show at September, we believe that in these terms are rather good.

And the second part of the question, which was about divestments in Paris. Well, we don’t have, let’s say, a principle for divestment more than the fact that we look individually at each asset that we own; we look at the marginal return that we expect as this asset remains in our portfolio, based on the expectations that we have for each one. The more this asset can capture the general trends of the market, of providing exactly what the market wants and therefore experiencing higher rental growth, the more is a marginal return that we see in this, the less inclined we may be for the sale of this asset. And in any case, when there is interest that is shown to us for each individual asset, we do a comparison of to what extent where the market appetite is compared to this, let’s say, marginal return that we expect.

Usually, the consequence of this is that the more an asset is aligned with our strategy of flight to quality, less likely we will sell. But that doesn't mean that it has to be here or there. There is no particular constraint in order to say that the market for our assets will be happening in Spain or in France.

What is true is that, as we all know, France, it's more institutionally oriented kind of investment market that has remained, let's say, more cautious during this year while Spain, because of the size of the assets, it's a market that marginally it's more biased towards a different kind of investor, more family office oriented, let's put it this way, where the market is functioning for these kinds of assets that we own more efficiently. And as a consequence, we've done a lot in Spain and less in France. Well, we will adapt to market circumstances relative to the attractiveness of each asset at any moment, but without any specific guidance from our side of where the activity will take place.

Fernando Abril

Okay. Thank you very much.

Operator

Thank you. Next question will be from Céline Soo-Huynh at Barclays. Please go ahead.

Céline Soo-Huynh

Hello. I was just wondering if you could provide some kind of comments about your Spanish portfolio. So my understanding is that ILAT should still be quite good for the French portfolio next year. And then you've got the CPI in Spain, which is accelerating again from June. So we can imagine a very good indexation in each one. In France it looks like it shouldn't be a problem. But in Spain we're starting to see negative release spread coming through last quarter in Barcelona, this quarter in Madrid. So my question is, how confident are you on the fundamentals of the Spanish portfolio at the moment? And if you could provide any comments, including reversion and vacancy to be reduced in Barcelona for next year? Thank you.

Carlos Krohmer

Okay. Thank you for the question. Yes, indeed, from a temporary point of view, indexation started earlier and accelerated mostly in Spain. So obviously, as a consequence of mathematics, it has narrowed more the reversionary potential of the price effect in Spain than in Paris. And Paris, moreover, is a market that is a little bit stronger in general terms. So this would be the first comment.

The second comment is that as a whole, our portfolio still remains with a strong reversionary potential on price and also on occupancy. And then it comes down to the second KPI that we here have highlighted and has performed quite well. That is to what extent are we capable to report rental growth. And so far, especially when we look at the Madrid market at the moment, we had in the third quarter an 8% ERV growth, so we are here having a higher ERV growth than the indexation. But yes, the reversionary potential is higher on the Paris part than on the Spanish part. This is factual and now we have an acceleration because of the time lag of the ILAT in Paris.

Regarding the occupancy, we typically do not guide on this. It is very difficult to guide in this market in general on this. I think the first thing that I can say is that we have improved the most, year to date, the occupancy on the Barcelona market. We have improved it by more than 500 basis points year to date. So we are working on this. It's very specifically concentrated on three assets, because the rest of the portfolio is at levels of 98% – so fully let. One of the assets is the renovation program of Torre Marenostrum. This is near to the sea. It's a little bit more international demand driven. And then we have Sant Cugat. Sant Cugat is a more difficult asset in the secondary area. It's one of the few - we have now very few assets that are in secondary areas - we don't like to be in these areas and these areas are a little bit more difficult. But yeah, we are working on it. We had a lot of progress on Barcelona portfolio. So let's see in the coming quarters where we can come out.

Céline Soo-Huynh

Carlos, can I follow up on that? Because I guess if market rents remain flat like we've seen this year, is it possible to see negative reversion coming through next year in the Spanish portfolio? I.e., my question is, are you over rented, [? 01:05:24] pushing inflation up, which is quite positive at the moment? Is there a risk of a negative reversion next year?

Carlos Krohmer

The only thing that I've said is that the reversionary potential is at this moment higher in Paris than in Spain. This is the only thing that I've said. And moreover, we are still here to date on all the contracts that we signed in Spain and in France, delivering on top rental growth. So this is what we can say about it. So we are confident.

Céline Soo-Huynh

Thank you, Carlos.

Carlos Krohmer

Thank you.

Operator

Thank you. And at this time, we have no other questions registered. Please proceed.

Pere Viñolas

Okay. So thank you all. It's been a real pleasure to share with you these results, and we look forward to meeting you soon again by the end of the year. Thank you very much.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we ask that you please disconnect your lines.