

COLONIAL FY 2023 RESULTS PRESENTATION

[\[00:00:02.420\] - Operator](#)

Ladies and gentlemen, welcome to Inmobiliaria Colonial Full Year 2023 Results Presentation. The management of the company will run you through the presentation, which will be followed by a question and answer session. You can ask a question by phone by pressing *5 on your telephone keypad, or you can also send your questions through the webcast platform. I would now like to introduce Mr. Pere Viñolas, CEO of Inmobiliaria Colonial. Please, sir, go ahead.

[\[00:00:31.510\] - Pere Viñolas Serra](#)

Thank you. This is Pere Viñolas speaking. Good afternoon to everyone. I'm pleased to introduce the presentation of results for 2023. Before going through the specific results, I would like to start by saying a few words on where do we see the market today, where do we see our strategic positioning, and where our clients are today regarding Colonial assets.

[\[00:01:06.880\] - Pere Viñolas Serra](#)

What we have been realizing in these previous months and in the previous weeks, is that it's clear that Colonial is strategically positioned in the urban product of the future. Let's put it this way.

[\[00:01:26.890\] - Pere Viñolas Serra](#)

What clearly is happening with markets, with our clients, what business want is that there's a clear confirmation that there's a preferred option for prime central locations, for good commuting to your place where you work, for good experiences where you work with amenities, with services, for spaces with light, spacious communal areas, again, with a well-being space for everybody. This is being a clear winner in the behavior of our market.

[\[00:02:09.430\] - Pere Viñolas Serra](#)

It's proving how scarce this asset is. That, whereas Colonial is strategically positioned, is our focus, and I think that we are clearly benefiting from this trend.

[\[00:02:30.240\] - Pere Viñolas Serra](#)

Our current position in a few sentences is, first of all, we are outperforming on letting activity. We are outperforming achieving the highest occupancy rate. We are capturing rental growth, which is above average. We are attracting the best clients, and therefore, we are delivering strong cash flow, which is growing. This is the strategic framework where Colonial is, and this is what explains the results that we are sharing today with you.

[\[00:03:13.400\] - Pere Viñolas Serra](#)

I'm in page 5 now of our presentation to go into the numbers, into the headlines. There are four areas where I'd like to comment quickly. The first is about cash flow. Year 2023 has been a year of a strong cash flow growth. Our net rental income has grown 9% like-for-like. That is a very robust number in absolute terms, but also very good number in relative terms compared with our history and compared to our market, to our competitors.

[00:03:58.160] - Pere Viñolas Serra

Our EBITDA has grown by 12%. Our EPS has grown by 7%, beating the guidance. Our EPS, if measured by continued operations, has grown 18%. The reason behind this strong cash flow growth is mainly the operational outperformance. We've signed contracts on a historical record, a historical high level of almost 160,000 square meters. That is very important, not only looking backwards, but looking forward, thinking about our future P&L.

[00:04:40.830] - Pere Viñolas Serra

Occupancy at the end of the year was 97%, which is a leader position in our European framework. Rental growth year-on-year is 7%, supporting the trend towards polarization that is at the heart of our strategy. Rental growth is not only good throughout the year, but it's accelerating. Rental growth for the last quarter of the year was 11%.

[00:05:13.520] - Pere Viñolas Serra

The capital allocation strategy of the company has remained very active. We've been disposing of those assets that were mature enough to crystallize in additional value for shareholders. We disposed of more than €700 million, and more importantly, confirming the appraisal values, all of them. That proof that both liquidity and valuation of our assets are in the right position. As a consequence, debt reduction has been of almost €500 million. In the meantime, the quality of our debt remains very high, with 100% of the debt at fixed cost, the cost of the debt at 1.75 spot.

[00:06:11.410] - Pere Viñolas Serra

We've been in a year of repricing, as you know, of adjustment to the market. Our assets are being adjusted downwards 9%. When you look at the European framework, at the European landscape, and when you look at the different quality of each asset adjusted for quality, this performance in relative terms is satisfactory.

[00:06:41.170] - Pere Viñolas Serra

Finally, the non-financial KPIs that for us are very important regarding ESG, what they show is an ESG leadership in the case of Colonial. Our rating in Sustainalytics put us at the top 0.2% of the global community of companies that are following Sustainalytics, and number one in Spain as a company. Our CDP score remains at A, which put us at the top 1.5%, that is at the highest percentile in the global index at the top level. GRESB is providing a score of 94, which again is putting us at the very top of the leadership of companies in this parameter.

[00:07:39.560] - Pere Viñolas Serra

Finally, at the asset level, 100% of our assets are Breeam Leed, which in comparable terms is non-existing in Europe. Page 6. This bet on quality is clearly seen in these two maps where you can see what's happening in our sector. What's going on in prime CBD markets, in super prime CBD markets, I have to say, is that occupancy is what you see in these two maps. It's not what is happening in secondary markets, which is different, but it's excellent. We are insisting in looking at the fundamentals of the companies and looking at the difference, and the difference is there.

[00:08:36.350] - Pere Viñolas Serra

You can see that also in page 7, where you can see that Colonial's playing field, which is the super prime in our sector, is behaving in a remarkable different way that the office market as a

whole, benefiting from the scarcity of the product that we own, which is highly rewarded and highly followed by the market.

[\[00:09:06.080\] - Pere Viñolas Serra](#)

The results we are presenting today are super strong in terms of operational performance, are very good in relative terms in terms of valuation. The driver behind this is a very specific positioning of the company that is in line with market trends and that put us in a better profile in order to transform this positioning in actual returns. I will now hand over to Carmina Ganyet to go through the section on the financial performance of the company.

[\[00:09:47.090\] - Carmina Ganyet](#)

Thank you, Pere. In this section, we are going to detail the main financial indicators and the keys that underline the strong evolution of this recurring result. As Pere has mentioned, in general terms, I would like to highlight that the recorded results has been described first by a strong growth of the cash flow, so revenues increasing 8% like-for-like, as well in the same direction, the EBITDA growing 12% and 18% considering the continuing operation, and recording the net profit per share increasing 7% year-on-year, 18% without considering the asset sales.

[\[00:10:31.900\] - Carmina Ganyet](#)

Secondly, the second semester with the valuation update is also described by a strong resilient in the valuation of our portfolio compared to some peers adjust to the quality of the asset. A decrease of 9% of adjusted value in 12 months, meaning a portfolio value of €11.4 billion, an NTA per share of €9.9 per share, 14% decrease in 12 months per dividend.

[\[00:11:01.850\] - Carmina Ganyet](#)

Finally, the financial discipline and the disposal delivery. We have demonstrated during the year as well the ability to undertake the divestment in a very narrow market, confirming valuations with a reduction of net debt, almost €500 million.

[\[00:11:17.520\] - Carmina Ganyet](#)

In next page, we would like to focus on the recurring results. As we said, it increased by 7%. Without taking the sales into account, 18%. Considering the different main impacts of this positive growth, you can see in the graph the positive contribution of the continued operation portfolio, €42 million. On the other hand, the negative impacts of the disposal of non-strategic asset, as well the negative impacts of the financial cost, only €12 million, basically due to the rate effect.

[\[00:11:55.460\] - Carmina Ganyet](#)

Remember that during 2022, the average financial cost for the total debt was 1.44% compared to the average cost of 2023 with 1.72%. The market has been increased by more than 300 basis points, while in Colonial, the cost of debt has been only increased 30 basis points. Consequently, the EPS increases by 7%, up to 32 cents per share, beating the upper range of the initial EPS guidance. In the next pages, we are going to analyze the different impacts in detail of this EPS growth.

[00:12:34.730] - Carmina Ganyet

Page 11, first, the growth of EPS is basically based on a strong growth on gross rental income. The portfolio and operation adds €23 million, 6%. The entry in the operation of the project adds another 10% of gross rental income, €35 million. Notice that this year we have a full impact of [inaudible 00:13:00], and as well the anticipation of the delivery of Lourdes Antiques to Cartier, Velázquez, and Miguel Ángel as the main project that has been delivered during 2023.

[00:13:13.550] - Carmina Ganyet

Important to highlight that the alpha strategies and the pricing power of our portfolio represents 16% of gross rental income growth. In the opposite direction, the sales of non-strategic assets had an impact of a reduction of rents of €35 million, and the results of that with a higher profile of our portfolio that has shown an increase of gross rental income of 16%.

[00:13:40.450] - Carmina Ganyet

In the next page, we are going to explain where has been this growth and why. It should be noted that the total rental growth has been positively impacted by a great performance in Paris market with a 15% rental growth, 8% like-for-like, in line with the Madrid market. In comparable terms of the portfolio, the three markets have performed very positively with an extraordinary evolution in Paris and in Madrid.

[00:14:10.170] - Carmina Ganyet

This extraordinary like-for-like growth of 8% is basically due to a combination of rental growth due to the shortage of the product in the market where we operate, and the strong demand for the super-prime assets as well as the indexation effect, thanks to the quality of the contracts and clients, and finally, 2% of the improvement in occupancy, especially in Madrid.

[00:14:36.000] - Carmina Ganyet

If we look at it in the perspective on page 13, this rental growth is being accelerated year-on-year. In this page, you can see the extraordinary year of the rental growth compared to the last three years. But above all, you can see the growth capacity of rents and the pricing power of our portfolio beyond the indexation effect, as you could see in the split 2023 impact.

[00:15:06.260] - Carmina Ganyet

The other impact on the EPS has been the disposal. I am in page 14. This year has been also characterized by a strong financial discipline in our company. In this sense, we have been doing a very attractive portfolio management in order to recycle capital and strengthen the capital structure. In a market as narrow as it was in 2023, we have been able to sell almost €574 million, and very important highlight, confirming valuation, as you know very well.

[00:15:39.980] - Carmina Ganyet

Colonial continues with this capital recycling strategy with an additional disposal plan of additional €500 million. During the first month of the year of 2024, we have already secured €150 million of sales, including the net Méndez Álvaro residential, as you know. But very important, at an overall premium of this disposal of 5% above last appraisal. The quality and the liquidity of our portfolio, again, confirms the liquidity in the markets and beating the appraisal when we have been succeeding the disposal program.

[00:16:19.400] - Carmina Ganyet

This strategy of the recycling capital has been reinforced the capital structure, reducing net debt to close €500 million, 9% of the debt, and as well increasing liquidity up to €2.9 billion between revolving credit lines and 500 million cash, covering more than 1.5 times the debt maturity that expires for the next three years. Today, we keep this liquidity available for the company, as we shared with you in the past in some presentations. We will decide the best allocations subject to opportunities, so we keep as of today the optionality of this cash allocation.

[00:17:14.300] - Carmina Ganyet

As you perfectly know, Colonial—I am in page 16—has carried out a very active management of the capital structure, not only reducing net debt through disposal, as we described, but also successfully covering the interest rate and any refinancing risk.

[00:17:34.400] - Carmina Ganyet

In this sense, as you can see in this page, Colonial has a very safe profile of the debt with 100% fixed cost of hedge, with a maturity profile quite comfortable as it shows the debt maturity that 77% of the debt expires after 2026, and 50% of this future debt that will be refinanced in the future is already pre-hedged at a level of Euribor of still 67%. It means that the debt is secured at a very interesting cost of debt well below market levels, already secured for the following years, thanks to this pre-hedge position took in 2021.

[00:18:18.600] - Carmina Ganyet

Finally, the reduction of debt has been positively impacting the ratio of Net Debt/EBTIDA from 19 times to 15. But considering the portfolio in operation, the ratio has been in decrease as well, reaching today a level of 12 times. As a summary, no referential risk at all, leveraging the investment rate zone and secure cost of debt well below market levels for the following years.

[00:18:45.450] - Carmina Ganyet

If now we go to the other part of the balance sheet, the asset, as we have commented previously, its valuation decreases in 2023, 9% in terms of like-for-like. If we look at each market, Paris shows a correction of 10%, Barcelona 11, and Madrid below 5%. The main impact, as you see in the chart, is in the Paris market due to its adjustment to the new reality of rates. In a way, this is the beauty of having a well-diversified prime asset in these three different markets.

[00:19:24.130] - Carmina Ganyet

It seems as well that after these corrections and with the market consensus about long-term real rates, the asset value are bottoming out from the peak. So if we analyze the details of these corrections, the yield expansion has been offset by the pricing power of the portfolio and also by the project deliveries, as you could see in next slide, in page 18.

[00:19:50.810] - Carmina Ganyet

As I said in the bar chart, you can see how the higher rates or the higher cap rates are being offset partially 50%, 5-0, by rental growth and project delivery. But what are the cap rates included in this appraisal. You see in the right-hand second side, after being expanded since June 2022, an average portfolio of 100 basis points, the evaluation yield is today an average yield of 4.35%.

[00:20:30.280] - Carmina Ganyet

Five twenty-five net valuation yield in Paris, 125 basis point expansion, 475 yield for Madrid, and 5% yield for Barcelona. The combination of being in these three markets, the pricing power of our assets, and I would say also, of course, the project delivery has demonstrated a resilience profile of the portfolio compared to our peers and to other profile of assets adjust to the quality of the portfolio.

[00:21:02.040] - Carmina Ganyet

Finally, the updates at NTA, calculation shows in this page 19, the value correction as well, but also the benefit of the quality portfolio and their active portfolio management. The increase in cash flows and the delivery of the project have offset 50% the expansion in yields, resulting from the increase of rates showing, consequently, an increase of NTA of 14% per dividend, €10.2 per share, and €9.95 per share post-dividend.

[00:21:40.370] - Carmina Ganyet

I would like to highlight the split of the impact of this NTA in the one part, the negative impact of the macro or beta driver's meaning rates, and the adaptation to the new macro long-term rates. After being adapted to the new reality of this real rate, so after this consensus of the long-term rates, this impact would be one shot. But on the other hand, the capacity of value creation of colonial platform through this alpha strategy, through the pricing power of the portfolio, recording earnings, and project delivery, with a total positive impact of 20%. This is not one-year impact. This is part of our strategy and of our capacity to value creation.

[00:22:27.310] - Pere Viñolas Serra

Thank you. We now ask Carlos Krohmer to step in to talk about the operational performance of the company.

[00:22:35.770] - Carlos Krohmer

Thank you very much, Pere. We are on page 21. As Pere mentioned, 160,000 square meters signed this year. This is quite a lot. We've especially been already at very high occupancy levels. One-third of this has been new leads, the rest has been renovations.

[00:22:52.190] - Carlos Krohmer

If we would have had more space available of our top space, it would have been even more square meters. We've signed this at very good terms, nine-year terms, and with the top names, and also at top rates. We have signed at 41 in Velázquez. Velázquez is one of the buildings with the highest average rent in the Madrid market. Washington Plaza, a tenant in the luxury business, has increased space at a rent above €1,000 per square meter a year. On Cloud, we also have a new tenant for a very large space, and we let the flagship store of Adidas on the Galerie des Champs-Élysées for really absolutely record rent.

[00:23:35.480] - Carlos Krohmer

All of this urban products, not just office, urban products in the middle of the city, this is what we can do, high-quality product in the urban center. When we look a little bit into the detail of the market rental growth that is on the page 22, relief spreads remain strong at 5%, especially Paris. Paris has longer-term contract, so there is a relevant price increase on relief spread to be captured.

[00:24:01.990] - Carlos Krohmer

If we look at rental growth, very good rental growth, 7% good growth across all markets. But more important than this, we are seeing an increase in acceleration. First quarter, 3% year-to-year growth, then 7, then 9, then 11. It's a clear highlight of the trend that we are seeing on the super prime in the market.

00:24:23.680] - Carlos Krohmer

When we go into the occupancy on page 23, you can see 97%, the highest occupancy in the last four years, but being already at very high occupancy levels in the previous years. We have increased in a year 140 basis points, very highlighting the increase in Barcelona, 390 basis points, and increasing in Madrid and Paris, we are basically stable at 100% occupancy level.

[00:24:52.940] - Carlos Krohmer

Where is the available space? This is on page 24. We have 3.2% of available space, 0.9% of this is CBD Madrid, Recoletos, Discovery, and Window. We're already having conversations today there. Part of this will be led in the coming weeks.

[00:25:09.770] - Carlos Krohmer

In Barcelona, and this is important to highlight on the Barcelona market, there's sometimes discussion. In the CBD, the occupancy is 100%, close to 100%. We have 0.2% of the vacancy corresponds to the Barcelona CBD portfolio. Then we have three of assets that are basically more on the 22 add, but we are planning the different actions, and we are positive on the near-term evolution of these premises.

[00:25:41.910] - Carlos Krohmer

Last word on ESG. We have already mentioned, we'll be quick on this point. We have had top ratings on ESG, just to highlight the top 0.2% globally on sustainability means we are one of the 26 best companies among 16,000 and 1 of the 7 best companies among 1,100 in real estate Europe, similar on CDP. I think very remarkable 100% of our assets have BREEAM and LEED certification.

[00:26:15.170] - Carlos Krohmer

Last element, GRESB, 94 on 100. And as you know, we are one of the few companies that are covering the full value chain. We are really in the business of value creation and urban transformation, and we are doing it well. We have 98 on 100 on the GRESB score on development management.

[00:26:34.430] - Pere Viñolas Serra

Thank you, Carlos. Final words on my side on the strategic positioning of the company and on the future growth prospects on page 27. Colonel has been carefully building a strategy based on quality, on a differential positioning of their for our assets, which should allow for this particular profile of resilience cash flow growth.

[00:27:12.760] - Pere Viñolas Serra

Also, we've been relying on a multi-layer cash flow strategy. That is because of this quality that we can deliver not only full inflation hedge to us through, but also enhanced rental growth that can provide cash flow that on top of that, additional value will be created by the cash flow coming from our project pipelines and from our acquisition strategy.

[00:27:49.170] - Pere Viñolas Serra

So far, we've seen a return from this strategy happening. Today, we saw the growth of our EBITDA. Today, we saw the growth of our EPS from a continuous operations point of view, which is a double-digit. We see the rewards of this. As I said, not only in absolute terms, but in relative terms.

[00:28:13.500] - Pere Viñolas Serra

If what we want to achieve is long-term returns that on a regular basis provide an alpha differential compared to the market because of our particular strategic positioning, in 2023, we saw that happening again. We saw, in the end, our assets with a higher occupancy rate, and we saw our assets with a higher gross rental income than our peers.

[00:28:47.380] - Pere Viñolas Serra

In assessing the value of the company, the value of our strategies, I think that coming from macro to micro and assessing the individual characteristics has to be a priority. Because of that, also, our gross asset value, like for like variance has proven to be particularly resilience.

[00:29:15.510] - Pere Viñolas Serra

Besides this, let's call it ordinary cash flow generation profile, we've been successfully delivering on our existing pipeline. On 2023, we saw the delivery of the final stage of Louvre Saint-Honoré and progress in Méndez Álvaro office.

[00:29:38.500] - Pere Viñolas Serra

Because of that, we have strong visibility not only on additional gross rental income coming from these projects, €51 million in gross rental income PNL for 2023 annualized, but also a full potential top up of almost 80 or around €80 million.

[00:30:04.060] - Pere Viñolas Serra

This allows for a visibility of our cash flow profile in terms of future growth that allows us to see that our passing rent that today is 426 has the potential to go above €500 million, around 540 to be more specific. Colonial's positioning in the end is allowing for a cash flow generation profile that not only will provide quality, but also growth.

[00:30:48.590] - Pere Viñolas Serra

On top of that, we will remain active on an active capital allocation strategy. We've been divesting substantially in the last period. We've been divesting 14 assets for more than €700 million. That has taken place at valuation appraisal values. We remain focused on this shareholder value creation. We have an objective of loading non-core for 2024, too. We have a particular goal of divesting around €500 million in additional assets. At the same time that we are considering reloading our prime pipeline with new initiatives.

[00:31:50.010] - Pere Viñolas Serra

If I could say something about the future alphas, the future pipelines that the company is working on, is that it will be based on a philosophy of urban regeneration, urban transformation, and more in the range of mixed use, as we've recently done in certain assets, like Méndez Álvaro in particular.

[00:32:17.380] - Pere Viñolas Serra

As a conclusion, the summary of our results in 2023 is, first of all, super strong operating performance, in particular in terms of letting performance that remains at very high historical volumes based on the scarcity of retail stock, based on the central locations that we own and the qualitative benefits in terms of experience that these assets provide.

[00:32:51.810] - Pere Viñolas Serra

2023 has been also a year of above average market rental growth. We've seen this like-for-like, which are very important in relative terms to our history and relative terms to our market. Providing returns that are coming with a differential to what's available for an average office investment.

[00:33:24.180] - Pere Viñolas Serra

2023 has also been a year of again, proving that the top products are denuding extra value and extra cash flow. We've seen the examples of Louvre in France. We are seeing the example of Magnum, and therefore that confirms the strong track record of Colonial in the field of urban transformation with outstanding capital value gains.

[00:33:57.710] - Pere Viñolas Serra

This top value is not only in terms of quantitative KPIs, it's also in terms of qualitative KPIs, such as those related to sustainability and the capacity of Colonial in developing low-carbon destinations that outperforms the market in occupancy and rental levels.

[00:34:21.560] - Pere Viñolas Serra

More specifically, as we said, we've been divesting €700 million. We have a strategy to keep on divesting. We have started the year in this direction, confirming the capability of Colonial in delivering these disposals at appraisal values with good liquidity and timing. Year to date, we have divested around 150 millions, and I confirm that is in line with appraisal values.

[00:35:06.670] - Pere Viñolas Serra

This capital allocation strategy goes hand in hand with good management of our capital structure, with our debt, which remains fully hedged in the next two years and above 97% for the next 4 years, and with a cost of debt that remains very low in the range of 1.7%.

[00:35:35.570] - Pere Viñolas Serra

In a nutshell, just to finish our presentation, we believe that Colonial is a well-established human transformation platform that is proving that it can deliver a solid outperformance, and that it provides a prime strategic positioning that is benefiting from polarization, that is able to deliver alpha value creation through projects and rental growth, and that can deliver also a creative strategy through capital recycling and through disposals also.

[00:36:16.360] - Pere Viñolas Serra

We believe that the asset values have gone through a process of repricing, and we believe that our yields are approaching its peak, and that is presenting an opportunity to benefit from the real estate recovery cycle. Therefore, we will be able to deliver new opportunities on our balance sheet and beyond.

[00:36:43.560] - Pere Viñolas Serra

Just to finalize, for year 2024, we see the EPS mainly in line with the most recent performance, in other words, above the guidance that we gave one year ago. We see a range of 30, 32 that will depend on the specific disposal execution. We confirmed that dividend for 2023 will be 27 cents that will be proposed to the general shareholders' meeting. That is an 8% growth year-on-year. That's in line with a long-term strategy of providing dividend per share that is growing in a relevant rate on a yearly basis.

[00:37:36.050] - Pere Viñolas Serra

We believe that we have the capacity to deliver a dividend percent growth of 8%-10% rate of growth going forward. As I said, our strategy will include a disposal program of circa €500 million for the year 2024. That's all. We've been very pleased to share with you this year of results, very solid from the operational performance point of view. Now we'll be happy to answer any questions that you may have. Thank you.

[00:38:18.780] - Operator

Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please press *5 on your telephone keypad. You can also send your questions through the webcast platform. Questions received by phone will be answered first. Thank you. The first question comes from Veronique Merkens from Kempen. Please go ahead.

[00:38:40.780] - Veronique Merkens

Hello. Good evening all. Thank you very much for the presentation and congratulations on another set of strong operational results. I think the key worry for Colonial, obviously, is its balance sheet. Looking at your Pro Forma app for LTV, it's increased to 47.3%.

[00:39:00.950] - Veronique Merkens

I'm curious how your discussions with the credit rating agencies are going, and if you've calculated what headroom you have in terms of valuation declines before you could get downgraded. Also, curious you're already talking about new opportunities on the balance sheet, whereas I think investors at this point would still like to see you deliver significantly before you could act on those opportunities. Curious to hear what's your view on that.

[00:39:30.880] - Pere Viñolas Serra

Thank you. On the new opportunities, I wanted to highlight that just in the transformation in what we own, we are able to deliver growth in our value going forward. We've just seen as this happened with assets or projects that has just been delivered, and this, let's say, source of value creation will remain a part of our activity.

[00:40:04.120] - Pere Viñolas Serra

Regarding debt, maybe I will ask Carmina to step in and give us a view on what you asked, Veronique. Thank you.

[00:40:09.330] - Carmina Ganyet

Yes. Thank you, Veronique. About debt, as you know, in the rating agencies and the conversations we have, they don't look at only metrics like long-to-value. They look also predictable cash flow, resilience of this cash flow, cash flow growth, and quality of this cash flow, of course. This approach, and then, of course, the assumption also was a correction on valuations.

[00:40:42.910] - Carmina Ganyet

We believe, as you know, that the pricing power that has been offset 50% of this yield expansion this year, which is the record year of the expansion, the conversations are in line that the consensus about the long-term rates seems that we are bottoming out the yield expansion. Again, the fact that we have a positive reversionary yield through market levels of brands adds additional comfort to the rating metrics.

[00:41:16.610] - Carmina Ganyet

If you look at the data of the information we release, all the contracts in average term are below market levels. Adding these market levels to the existing running rent plus the future cash flow coming from the future projects plus the predictable cash flow we have, we are in the zone that, of course, the rating is in the investment rate.

[00:41:47.220] - Carmina Ganyet

The question is, what about future correction? But I said, this year of the yield expansion has been impacted, and partially upset by the pricing power. We believe that this additional yield expansion cannot be repeated. These are the assumptions that the rating agencies are looking at. But moreover, in this holistic approach, the most important part is the predictable cash flow and the cash flow growth.

[00:42:17.970] - Veronique Merkens

Okay, very clear. Just to be clear, the credit risk agencies haven't given you any indication that they would like to see you deliver more than that \$500 million?

[00:42:26.520] - Carmina Ganyet

No. We will have after this presentation the regular meetings, but no, the meetings that we are having, they are in line and supporting the strategy we are doing in this capital discipline of the balance sheet.

[00:42:45.640] - Veronique Merkens

Okay, that's very clear and helpful. Thank you. One follow-up question on those developments. Is there any update on the scope development? As the self-presentation does mention it already in a further stage, but I don't see it in your own pipeline, so I was wondering if there was a specific reason for that and if there's any update on it.

[00:43:04.520] - Pere Viñolas Serra

Regarding developments, it's well known that we are in the final stages of the Méndez Álvaro project. It's also known that we are progressing nicely on the Rives de Seine project in Paris. We are now starting different alternatives of value creation for the Santa Hortensia asset in Madrid, and that would be the three most immediate developments projects that we are working on. For these projects, and particularly for the IBM one, I would say that value creation will come with maybe a profile more in the direction of a mixed-use as it happens in the Méndez Álvaro project.

[00:43:58.920] - Veronique Merkens

Okay, that's very clear. Thank you all.

[00:44:02.710] - Operator

Thank you. The next question comes from Céline Soo from Barclays. Please go ahead.

[00:44:12.320] - Céline Soo

Hi, Pere. I just have a question about Méndez Álvaro, the rest of the disposal. Can you confirm the price at which it was sold? Because it looks like 150 million in the presentation, but also the press got it, 113 million. If I look at your balance sheet, it says 122 million under asset for sale. Thank you.

[00:44:34.920] - Pere Viñolas Serra

Thank you. That figure of 150, I think, included a number of things, some of them quite smaller, that were not very relevant to be specific. Yes, we confirm that disposals up-to-date amount for circa 150 million, but that does not mean only Méndez Álvaro residential.

[00:45:07.990] - Pere Viñolas Serra

We cannot be specific about the numbers, about this transaction, as it often happens in this transaction. But what we want to confirm is that the amount of this transaction is in line with the appraisal for this particular asset as it has happened, more generally speaking, for the asset that we've been disposing last year.

[00:45:41.410] - Céline Soo

Pere, can I ask you, out of the 700 million disposals you're targeting this year, how much do you think you can get that would be non-yielding?

[00:45:52.230] - Pere Viñolas Serra

That will be non-yielding? It's difficult to say because we work, usually, as you can imagine, with a number of available strategies that will help us in achieving this final objective. But this may come through different avenues, depending on where the market is at every moment.

[00:46:25.350] - Pere Viñolas Serra

I think that this the asset that we dispose will be yielding some cash as of today. That's why a limited impact can happen because of this disposal. Of course, we are always thinking of assets that either are low-yielding or close to generating non-relevant cash. But I cannot be specific about this. First of all, because there's no specific goal on particular assets. We have some avenues, and that will depend on market conditions.

[00:47:05.600] - Céline Soo

Okay. Can I go back to your guidance for this year in terms of EPS? What is your assumption around the disposals that goes into that guidance? It looks a bit low.

[00:47:17.190] - Pere Viñolas Serra

I think that it's based on different assessments, on different assets and timings. That's what happens, that it was causing as a consequence this range of guidance. That is, by the way, something that we traditionally know that we like to behave a little bit this way, particularly when the year starts, and we have a low visibility, as year have more progress, then we'll come with more specific guidance.

[00:47:55.080] - Céline Soo

Thank you, Pere.

[00:47:55.710] - Pere Viñolas Serra

Thank you.

[00:47:58.000] - Operator

Thank you. The next question comes from Markus Kulesa from Bank of America. Please go ahead.

[00:48:08.530] - Markus Kulesa

Hello. Thank you very much. Congratulations also from my side. I will start to follow up on the disposals, maybe just I wanted to check the 2023 signed and cashed in disposals. Is it 490 million? 512 million? I see different numbers. Then maybe I follow up on the disposals. The second problem, 500 million, is the idea to do this within 2024. If you have the net debt to EBITDA Pro Forma, the signed disposals, and the pipeline rent, the 80 million, this is 15 times you report, is it right?

[00:48:52.310] - Pere Viñolas Serra

Yeah, the net debt EBITDA does this debt as of December 2023, and the asset values on the operation of debt EBITDA, this is the important one in our case, on the asset in operation as of December '23. This means that the 150 to be cashed in during 2024 are not included in this calculation. Do we see the number?

[00:49:25.020] - Carmina Ganyet

No. The Pro Forma, the same, only includes the one that has been already secured or some with already cashed in, which is 150, not the remaining part.

[00:49:38.160] - Pere Viñolas Serra

Exactly. Just the one that has been done, so it's not including any further target to be delivered.

[00:49:47.520] - Carmina Ganyet

Yeah.

[00:49:47.840] - Markus Kulesa

Okay. The 500 million is the aim to do within this current year? Maybe I missed the time frame of this.

[00:50:00.170] - Pere Viñolas Serra

Yes, it's 2024. Yes.

[00:50:03.170] - Markus Kulesa

Okay. Then on the valuations, you said you see valuations bottoming out. We still see an acceleration slightly in H2, so first question on this would be the signs you're seeing which is backing your statement, that the valuations are putting everything out.

[00:50:25.430] - Markus Kulesa

The second question would be on the yield expansion. I see your valuation yields. You showed slide 18, I think, 90 bps yield expansion in Paris. But if I look at the EPRA Net initial yield, it's up on the 25 bps to 2.6%. Unless I'm wrong, I think the EPRA yields also exclude developments, et cetera, so why is it so low on absolute versus your reported valuation yield above 4%? Why is the cap rate expansion on the EPRA basis?

[00:50:58.120] - Pere Viñolas Serra

Maybe I start with a general assessment on the question you were asking, and then Carlos or Carmina can be more specific about the data that you were suggesting. First of all, we don't have, let's say, the capacity of forecasting what the market is going to look like by the end of 2024. We don't have a specific, let's say, assumption on this.

[00:51:31.010] - Pere Viñolas Serra

Our view is that when you look at the fundamental characteristics of the assets that we own, and what has happened so far is that since the top of the valuation or the lowest yield that we had until the current situation at the end of 2023, our yields, for example, in Paris that you were suggesting, have gone up more than 100 basis points globally.

[00:52:00.650] - Pere Viñolas Serra

What we believe is that from a fundamental point of view, I think that is what an asset like the asset that we own require. That's, let's say, an assessment or a judgment on the theoretical fair value that we see, the intrinsic value that we see in the assets like the ones that we own.

[00:52:26.410] - Pere Viñolas Serra

Then the specific market behavior, we always have to be very humble about what it may happen during this year. But just we want to emphasize that from a fundamental point of view and looking at the intrinsic characteristics of our assets, we think that we've gone quite a long way in what had to happen.

[00:52:53.470] - Pere Viñolas Serra

Today, if we look at what the expected return that an asset like ours can provide with current yields that is owned today, how this return compared to, let's say, all the assets like fixed income or public debt can provide, and looking at the intrinsic quality of the assets, we believe that from a fundamental point of view, it makes sense to say that a great adjustment has been done. We remain always prudent about market conditions, having said that. More specifically about yields, maybe Carlos or Carmina want to provide some additional visibility.

[00:53:45.730] - Carlos Krohmer

I will do some quick comments and for more details. I think it's very technical to do specifically in a one-on-one. But to be clear, first, the yields that we show on page 18, this one are the yields that are the input in our appraisal values. These are the yields that are moving the value. This is the cap rate at the end of the 10-year DCF cash flow of the appraisals done by [inaudible 00:54:12]. This is the number to watch.

[00:54:16.610] - Carlos Krohmer

The net initial yield is an output figure. There you have to be careful. First of all, in comparable terms that you cannot see here, the yield expansion is in the same way, it would not make sense any other different situation. But as we show in accordance with EPRA best practice, the full operational portfolio and the EPRA rate of the full operational portfolio at each point in time, especially when you are in a market with long-term contracts that has been a little bit longer avoid periods like Paris or also could be Germany or UK.

[00:54:57.710] - Carlos Krohmer

Then as soon as you deliver We have delivered a project, and we have delivered two big projects in Paris recently, Bioume and Louvre, then you have a time of a year or one and a half years, where you have a void period, where you have no cash flow.

[00:55:13.690] - Carlos Krohmer

Therefore, it is really not really representative to look at the net initial yield. And first you should look at the top-up net initial yield. From that on, you have to include that there is a significant reversion potential that's going to be collected across the coming months and years. Therefore, we have provided it on page 14, what would be the full reversion yield on our portfolio. You can see that we are at yields that are very similar to the cap rates of the valuation.

[00:55:46.630] - Carlos Krohmer

To say it in a way, our Paris office portfolio, being at the super-prime end, it's today at 425 in terms of valuation yield. This is the number to judge if it's high, if it's low, how much can come in addition. Also, I think it's important you know that our Madrid portfolio is also top-notch, and you can see what are the valuation yields of our portfolio, and there are at the levels of close to 5%.

[00:56:15.510] - Carlos Krohmer

You have just to look a little bit around at other valuations, and you will see you can then have your own judgment if our Madrid CBD portfolio at 474 and the Barcelona CBD portfolio at 5, how much is there in addition to come and also in relative terms to other assets in the market?

[00:56:35.220] - Markus Kulesa

Thank you. Just a very quick follow-up. Sorry for this, but it was very helpful already. I understand it's rent-free period, but you said it's one-year rent-free of the developments coming in, but you didn't give 12 months rent-free on Louvre, Saint-Honoré for example, no? Or what is the rent-free you're giving on the recent developments you have delivered this year?

[00:57:04.010] - Carlos Krohmer

We give what is for the best type of assets, the market standard. If you look a little bit into Paris statistics in the CBD of Paris, the incentive is between 12 and 15%. We are at the low end. When you go to secondary markets, you have them in other forms or markets like that, you have levels of 25%-30%. You then put this in relation to the contract maturity, and you have what is the VOR period. But I think all of these technical details we can then cover it in a specific call with you if you want.

[00:57:40.390] - Markus Kulesa

Okay. Thank you.

[00:57:42.540] - Pere Viñolas Serra

Thank you, Marcos.

[00:57:43.280] - Operator

Thank you. The next question comes from Ana Escalante from Morgan Stanley. Please go ahead.

[00:57:52.180] - Ana Escalante

Hi. I would like to ask about the potential reloading of development pipeline that you've mentioned. I appreciate that you've said that these opportunities will drive value creation, but can you maybe give us more color on how you're planning to fund them? Does this mean that you are comfortable with an LTV of around 47% to commit into further development opportunities, or will you be looking to deliver further the balance sheet before assuming further development risk? I wanted to understand what's going to be the funding of that pipeline.

[00:58:37.950] - Pere Viñolas Serra

Yes. Thank you, Ana. Look, first of all, these developments are not projects that are happening this year. They are, let's say, happening across the next few years. In this context, and following more or less what you were saying, now we are relying on a vision of our balance sheet where our LTV is going to be lower than it is today, so we'll put in place the strategies that have to be the right ones to ensure that objective. In fact, the sales program that we're executing in 2023, the sales program that we are executing in 2024, are part of an overall strategy of remaining with a strong balance sheet.

[00:59:31.550] - Ana Escalante

Okay, thank you very much.

[00:59:36.870] - Pere Viñolas Serra

Thank you, Ana.

[00:59:37.710] - Operator

Thank you. The next question comes from Fernando Abril from Alantra. Please go ahead.

[00:59:44.670] - Fernando Abril

Hello. Thank you very much for the presentation. I have a couple of questions, please. Based on your disposals target for 2024, I understand that the 500 million, including the 150 already closed. My question is, how confident are you in doing it? Are you in short of advance talks with potential buyers? Whether you will concentrate in other plan but the last two years, you have concentrated the disposals in Spain. I don't know if you have better prospects in Paris, or is it still mute?

[01:00:24.510] - Fernando Abril

Then, second question, again, on the cap rates that I think you've posted. You've highlighted that there have been a couple of transactions in Paris in CBD already in 2024. My question is, I don't know if you can give us an idea of those transactions, the implied cap rate of those transactions. How do they compare with the one that you have just released at the 4.25%? Thank you.

[01:00:56.920] - Pere Viñolas Serra

Thank you for your questions. Look, first of all, yes, on the disposal strategies, usually we have a strategy in place that embraces different potential avenues because in the end, that's the right way to make things happen. In this respect, I think that in 2023, the framework for our strategy was the Spanish market was open, liquid, and assuming full pricing of the assets, and the French market was nonexistent. For year 2024, the market remains basically the same way.

[01:01:49.940] - Pere Viñolas Serra

In the French market, we have indications of the market reopening, at least compared to 2023. That allow us to put in place different strategies and to make the full goal of divestment achievable. Regarding cap rates in France, it's difficult to be specific about where cap rate is because the market is in early stages of reopening, and we see different profiles of buyers.

[01:02:28.510] - Pere Viñolas Serra

In the same way that in Spain, we said that the main driver was family offices investing in assets of a limited amount. In France, as of today, we see two operations happening. One is the typical one that comes from an institutional investor that is looking at a specific cap rate for doing their investment.

[01:02:54.140] - Pere Viñolas Serra

Another transaction that is happening is for buyers that are not institutional investors, that are not real estate professionals, that are buying assets based on other strategies, and that are paying much lower yields. You've seen some of them happening according to market sources, because obviously, we don't have information on bills, transactions that don't involve ourselves. But according to market sources, this latter chapter in very competitive fields, and some other, let's say, more regular, but not far away or not really different from the implicit valuations that we have in our assets.

[01:03:42.900] - Pere Viñolas Serra

Just to summarize and coming back to the point, I think that last year, the French market was not available. The Spanish one was. The year 2024, the Spanish market remains available, and the French market is offering signs of reopening.

[01:04:01.700] - Fernando Abril

Okay. May I have a follow-up, please?

[01:04:07.370] - Pere Viñolas Serra

Sure, of course.

[01:04:08.500] - Fernando Abril

Okay. Just with regards to Spain, again, so looking into your portfolio, you have just around 18 assets. Some of them are small, but some of them are very big. At an age, you may consider if those low-yield investors approach you to one of your big assets, may you consider to sell it, or this is not on the table right now.

[01:04:36.050] - Pere Viñolas Serra

Well, I don't know if I understood that question. If you consider selling-

[01:04:40.490] - Carmina Ganyet

Big asset.

[01:04:41.970] - Fernando Abril

Yeah, any of those big assets.

[01:04:44.000] - Pere Viñolas Serra

To be honest, the reopening of the market, the more, let's say, realistic of prudent approach is that the more you are in the range of smaller tickets, the more feasible the strategy is. I think that the intrinsic value of a super high trophy assets with a super high ticket, this does not remain a likely scenario in the short term.

[01:05:15.280] - Fernando Abril

Okay. Thank you.

[01:05:17.230] - Pere Viñolas Serra

Thank you.

[01:05:18.020] - Operator

Thank you. The next question comes from Florent Laroche, from ODDO BHF. Please go ahead

[01:05:33.190] - Florent Laroche

Hi. Good evening. Thank you very much for this presentation. Actually, I have two questions. My first question would be on the leases that could come to maturity in 2024 and 2025 in Spain. Maybe could you please give us maybe some more colors on that and maybe more specifically in Barcelona, where I understand that the leasing market is maybe a little bit more difficult.

[01:06:00.130] - Florent Laroche

My second question would be, again, on the valuation of the asset. Actually, if I look the slide 17, and if I look the like for like valuation in H2, I can see that in Paris, the like-for-like is -7%. In Paris, we have a good positive windtail Effect, I think, with a positive revision on disease sign. At the same time in Madrid and Barcelona, we have flat release spread. The like for like valuation for H2 is the same or lower. I would like to understand how we can understand the consistency of these valuations. Thank you very much.

[01:06:55.700] - Pere Viñolas Serra

Yes. Well, I would say that what has happened in the market in Spain and France in 2023 is that there's a different reality happening. As you know, when we talk about valuations, there are two different avenues that you can adopt. One is looking at where, in theory, the value of your asset should be based on where rents are and where, apparently, the yields and discounts rates should be. The other route is to look at actual transactions that are happening.

[01:07:41.380] - Pere Viñolas Serra

If you look at the first route, what has happened, generally speaking, across markets is that valuation have taken a more prudent route in terms of assessing where yields will be, and where discount rate is, and where rents are going to be. Because of that, we've seen valuations going down and implicit deals going up. Nothing was happening in France in terms of actual deals that could confirm and not confirm this view.

[01:08:22.120] - Pere Viñolas Serra

In the case of Spain, what has happened is a little bit different. What has happened is that this, let's say, theoretical assumption of where the market is in a way, was the same. But the different reality is that we've been delivering, Colonial in particular, by the way, consistently, one after the other, a number of transactions, many transactions at the end of the year, all of them at appraisal value, not at 2023 appraisal value, but at 2022 appraisal value.

[01:08:58.940] - Pere Viñolas Serra

Therefore, valuations automatically have had to be more resilient because of this evidence. That explains for our specific assets, for those who are in prime CBD locations that we can prove that have been disposed at the present values, this like for like has proved to be more resilient in Madrid or Barcelona than in Paris. That is because of different market performance, because of individual characteristics of each market. That was the answer to your second question. I'm sorry, I forgot the first one.

[01:09:45.840] - Carmina Ganyet

Because it's not the contract to-

[01:09:48.430] - Pere Viñolas Serra

I have maturity. Carlos, if you could say a bit, please.

[01:09:51.280] - Carlos Krohmer

On the maturity profile, you will find it in our narrative, in our detailed narrative. You will see there that out of our total contract portfolio we have 17% of the contracts maturing during 2024. As of today, we have already addressed and under control 11%.

[01:10:09.410] - Carlos Krohmer

The remaining 6% to be addressed later in the year, and you have to tactically approach this in the most intelligent way, are top-notch spaces. It does not mean that if the people go out there, this is negative. It sometimes can be even very positive. We have that really super, top space part of this is in Paris, in the middle of Paris, where we are experiencing a very strong progress on the super-prime brands. We are very comfortable. We see this more as an opportunity than as a threat, and a big part of this is already managed and under control.

[01:10:48.980] - Carlos Krohmer

On the release spreads, obviously, in Spain, we had three years of high inflation, so the passing rents have gone up faster and are closer to the ERVs. In a way, we are almost flat there, and therefore, you see this reflected in the release spread.

[01:11:09.150] - Carlos Krohmer

On the other hand, I would like to insist that the super prime continues to perform well. What we're going to see going forward is that the rent will further grow, and they will grow according to the ERV evolution. The Paris market is a long-term market, so we have done much more release spread to capture from a structured point of view because rents come from later points in time.

[01:11:33.750] - Carlos Krohmer

Then, also the laps has been starting later and lower, and it is now high. This, again, I would say it's a benefit of diversification. Companies in Spain cannot benefit anymore from catching up release rates and just have to be in the prime and to experience rental growth. But as we are not only in Spain, but also in Paris, we have a double impact. We have high release rates to capture and more over rental growth. This is what we can say about this.

[01:12:09.370] - Florent Laroche

Thank you very much. That's very useful. Thank you.

[01:12:13.230] - Pere Viñolas Serra

Thank you, Florent.

[01:12:14.240] - Operator

Thank you. The next question comes from Pierre Manuel from Jefferies. Please go ahead.

[01:12:21.470] - Pierre Manuel

Yes. Good evening. Pierre Manuel from Jefferies. I have two questions, actually. My first one is on your debt matrix. Can you give us the level of your EBITDA interest coverage in 2023, please?

[01:12:41.240] - Carmina Ganyet

Sorry, I don't have here, but it's above three times, so three and a half, something like that. Be aware that we have a very low cost of debt already secure, as I mentioned, and it's well above three and a half, I think, was the last number. Yes.

[01:13:00.380] - Pierre Manuel

All right. It's according to the SMP calculation, the three plus times?

[01:13:09.820] - Carmina Ganyet

Yes. Right.

[01:13:11.530] - Pierre Manuel

Okay. The second one is on coming back on disposals. I understand that it's more complicated to sell a set above €200 million today, but there is still liquidity for a super, super prime assets. Why are you not considering selling assets like Louvre Saint-Honoré, where the yield is probably diluting your FFO today? I suspect that some luxury companies are still willing to buy some asset like that.

[01:13:45.910] - Pere Viñolas Serra

Yes. To be specific, we are considering always different avenues. In other words, we don't exclude, in particular, any avenue. But there was a question on bigger tickets, and I think that it's less realistic or less likely, let's put it this way, to raise expectations on this front because transactions, I think that the market is not prepared for them yet. But to be specific, we don't have a narrow scope for our capital allocation strategies. We just believe that the market in France, it's a reopening, but we must be prudent in this process of reopening.

[01:14:46.870] - Pierre Manuel

Okay. Thank you very much.

[01:14:50.690] - Pere Viñolas Serra

Thank you.

[01:14:51.600] - Operator

Thank you. The next question comes from Adam Sharty from Green Street. Please go ahead.

[01:15:04.350] - Adam Sharty

Hi, team. Thanks for taking the question. Hope you can hear me. Just two clarifications on pipeline. I think the question was asked earlier, but I didn't catch the answer. On scope, why doesn't that appear in your pipeline as a committed project? Just thinking about committed CapEx the next two years, even before you reload the pipeline. That's question one.

[01:15:31.580] - Adam Sharty

Then the second one is, are you able to give any guidance on what rent you're expecting to achieve on Méndez Álvaro? It's obviously very close. You say it's on track, you say you're on cost of about €0.8. Can you give us a sense of rents you expect to be signing there?

[01:15:52.830] - Pere Viñolas Serra

Look on the first question about the scope of the pipeline. I mentioned two projects that are already public and have a committed figure attached to this, which is meant to Álvaro and Rives de Seine in France. Then, I added another one which is IBM, the former IBM headquarters, Santa Hortensia.

[01:16:23.600] - Pere Viñolas Serra

In regarding this project, we are in the process of analysis of alternative strategies, and therefore a specific route is still not decided on this, and therefore we still don't have a specific figure for this project and timeline, although it is likely that will happen next year. That's the reason we are not so specific. On the second question, which is regarding Méndez Álvaro and the yield Carlos is entering in.

[01:16:59.550] - Carlos Krohmer

Well, you can see that we have updated the yield on cost of Méndez Álvaro office. It's 8% yield on total cost. I would like to underline. Acquisition cost plus Capex. When you make yield on Capex, it's double-digit, like some of you can also report in the market. You can very easily calculate, it's 19 million of rent, what is the current assumption in this yield on cost.

[01:17:25.520] - Carlos Krohmer

At this moment, we are receiving a lot of interest, and we have the feeling that we're going to beat the current rent that is in our prudent underwriting. We are receiving, and this is a very unique product, rents that are significantly above of the figure that we got here, but that in itself already delivers a yield on cost of 8% on total cost. This is what we can say so far. We are having a lot of conversations, and as soon as we then have something specific, we will come with a disclosure. But we are very positive. The product is really unique and is generating a lot of interest in the market.

[01:18:11.230] - Adam Sharty

Okay. Thank you. That's great.

[01:18:13.130] - Pere Viñolas Serra

Thank you, all.

[01:18:14.650] - Operator

Thank you. Ladies and gentlemen, there are no further questions. Pere Viñolas back to you.

[01:18:24.970] - Pere Viñolas Serra

Well, now, just to thank you all for your attention and participating in this event today. It's been a pleasure, as always, and we are looking forward to seeing you soon again. Thank you and have a good day. Bye-bye.