

Inmobiliaria Colonial – 3Q 2024 Results Presentation

0:00 - Moderator

Ladies and gentlemen, welcome to third quarter 2024 results presentation. The management of the company will run you through the presentation that will be followed by a question and answer session. You can ask a question by phone by pressing asterisk five on your telephone keypad. I would now like to introduce Mr. Pere Viñolas, CEO of Inmobiliaria Colonial.

0:33 - Pere Viñolas

Thank you.
Good afternoon.
This is Pere Viñolas speaking.
It's a pleasure to be here again to present the results of the third quarter of this year. I am together with Carmina Ganyet and Carlos Krohmer, as usual, to drive you through the details of our results for September 2024.

1:00 - Pere Viñolas

I would like to start with the highlights, with the main headlines of the results, and then go into the details, and also maybe before that, a quick comment on latest events, that are surrounding us. The first thing I would like to say is that the results for the third quarter have been fantastic, have been super positive. You will see the details now. We always say that is strictly linked to our positioning.

1:35 - Pere Viñolas

We are positioned in prime asset class product and here it's obvious that the balance between supply and demand drives outperformance is working very strongly as a tailwind for our delivery of results. Our prime asset class is delivering the strongest performance in absolute terms as you can see and as you will see also in relative terms. We have a company, Colonial that is positioned in prime asset class. 96 percent of our product is prime asset class.

2:14 - Pere Viñolas

It's very well diversified among different regions with super pricing power accounting for 91 percent of our assets. These allow us also to extract value through a strategy of urban transformation projects in two ways, with high quality office assets in supply constrained locations and also driving new mixed-use approaches.

Let me go to the specific numbers.

2:46 - Pere Viñolas

Page five of the presentation, for this quarter, we finish September 2024 with EPRA earnings 147 million euros. This is 15% more than a year ago.

Revenues, gross rental income (GRI) is at the end of September 293 million. This is 6.5% like for like.

3:26 - Pere Viñolas

Again, at the high end of our industry, at a very high end of our expectations. So very good. The release spread of the company is 8%.

That means signed rents versus previous contracts and relet spaces.

And the rental growth for the group total portfolio is 5%.

Remember that this 5% is what is signed so far this year compared to ERV December 2023. The EPS of 26 cents, it's 9% above last year.

4:12 - Pere Viñolas

I mentioned the revenues for the group, the GRI in Paris in particular maybe deserves special comment, it's 192 million, this is 7.4% growth in terms of like for like.

In Paris, you can see also very significant release portfolio, 19%, and a growth in rental growth in Paris of 7%.

So fantastic results in relative terms, in absolute terms, and this is the consequence of our specific positioning of where we are.

4:55 - Pere Viñolas

You can see on page six is the same description that you always see about this company.

Where do we are?

What's the occupancy of each and every building that we own and therefore the best performance that can be expected from this situation and from this location.

5:23 - Pere Viñolas

I would like to stress the fact that we are benefiting of a strategy that is based on the expectation and reality of a bifurcation happening in the market, where prime CBD is showing a very much better improved outlook than any other market. And that is not just a question of occupancy, it's also a question of rental growth.

5:55 - Pere Viñolas

In this page, for example, number seven, you can see the expectations of prime capital values for different locations where we are based, from where we are to 2029.

So, I think that our performance is very strong, but I also think that what's happening in our market is a sentiment of improved outlook, a sentiment of change in the cycle that is very particular of the locations where we are.

6:36 - Pere Viñolas

I always defend that our market is a sub market with its own rationale of limited supply, excessive unattended demand and therefore these kind of dynamics in capital value and in rental growth.

6:53 - Pere Viñolas

And in this page, by the way, it's not a minor comment.

You can see out of this CBRE research that I was mentioning too, what are the prime capital values and where is our appraisal value today in June 24, so that also gives you a sense of how much additional performance we could expect from our assets.

7:19 - Pere Viñolas

So fantastic performance, you will see through the presentation that this fantastic performance is in terms of leasing activities, is in terms of occupancy, is in terms of rental growth.

So, and also affecting existing assets and also new projects that are having a very nice development as we speak.

7:51 - Pere Viñolas

That's the introduction of where we are today, I think that in this moment, maybe it's also good if I give some comments on the recent events that have gone through in the last few days and maybe provide a little bit of information or guidance on this.

8:16 - Pere Viñolas

In a nutshell, as you may be aware, in the last few days there's been a new debate about a potential change of regime for REITs in Spain.

There was already discussions going on for the REIT regime to be enhanced in Spain for those REITs that have a specific exposure to residential, the discussions that were going on were about to additionally improve the benefits for those kinds of REITs.

That was one discussion that was taking place at the regulator level or the government level as a potential avenue for REIT regime in Spain.

9:22 - Pere Viñolas

On top of that there was another avenue more recent over the last few days talking about a potential change of the tax treatment of existing REITs in Spain. What are the comments we have on this?

First as you can see there's no single scenario. There are two potential scenarios at the very minimum.

So one would be nothing happens.

The second would be there's something happening which is enhancing of the REIT regime in the residential area.

Third thing that could happen is a revision of the REIT regime in terms of tax treatment.

10:08 - Pere Viñolas

The message that we wanted to pass on this is that as we speak there's high level of uncertainty on which is the outcome out of these three that we should expect as the most obvious.

We cannot be more specific about the probabilities that we give to each one, but at the very least what we can say is that it's not obvious at all that the REIT regime changes in Spain.

10:49 - Pere Viñolas

If the agenda had gone in a different way and today we're having this meeting with you as we're having and tomorrow was the day that the decision was expected to take place in the level of the Spanish Parliament, what we would say is, as we are saying, we are waiting for the decision that will be taken, but this decision remains uncertain to us.

But this theoretical meeting that could have happened tomorrow, in fact, has already happened.

It was expected for today. It was expected for this morning and the outcome that we have so far is that there's been no capacity to reach an agreement for the revision of the REIT regime in Spain and these discussions have been postponed, so that's the reality and that's the first message that we would like to share with you.

12:10 - Pere Viñolas

There is a high level of uncertainty, not given certainty, number one.

Number two, this is already what has happened today, It's not just an impression of what could happen in the future. Discussions have taken place. An agreement has not been possible today.

12:35 - Pere Viñolas

The second obvious comment is, okay, but you're talking about three potential scenarios.

So no change in the regime, enhancement of REIT regime taxation, new taxation in REIT regime.

What would be the impact on Colonial of these potential scenarios stating the obvious if no change happened in the REIT regime? Nothing. Attach the probability that you wish to that.

If the REIT regime is enhanced in certain asset classes, again between nothing and positive, but let's say nothing, no, no potential change.

13:23 - Pere Viñolas

What if at the very worst end, taxation happens to take place in Spain as any ordinary company in the future, in the case of REITs? Well, I think that in that case, Even if I say the probability of this would be not obvious at all, and there's a huge uncertainty on this, I think that we must give a little bit of guidance in this potential low-end scenario.

14:05 - Pere Viñolas

We've seen certain estimates based on the fact that people have assumed that from a taxation we're going to a 25 percent taxation.

I think that there are three elements that have to be taken into consideration. Number one, let's state the obvious.

We have 65 percent of our activity which is not based in Spain and cannot be taxed at the local level in Spain so it's attached to local tax treatment in the other countries, meaning France.

So, first of all, only 35 percent of our exposure as of today is attached to a potential change in taxation, number one.

14:59 - Pere Viñolas

Number two, if you go through an analysis of what would be this taxation, you obviously have to come from let's say an EPRA EPS to a tax Spanish accounting tax driven EPS which it's not the same, to state maybe the obvious the first obvious change is that you have to deduct depreciation attached to the assets before reaching the fiscal earnings. That's a huge, huge change.

15:42 - Pere Viñolas

And number three, and that goes back to the history of Colonial, you know that from the past we had an asset that we did not have to use in the recent history, but that doesn't mean that it's not there.

16:05 - Pere Viñolas

That was a typical topic that we used to mention a few years ago, but I'm talking about the tax credits coming from the impairment of the assets that took place in the Global Financial Crisis, that started 2008.

In the case of Colonial, we are talking about EUR5.3 billion of tax credit that can shelter any impact that also, according to Spanish law, its use is constrained by certain limitations And therefore, the impact of this is limited, but anyway, still, it's a relevant element of compensation.

So these are the three main considerations.

17:07 - Pere Viñolas

That means in practical terms that the tax on income just because of the use of the tax credit, the tax percentage that is applicable to Colonial should be not 25, should be 18.75 and should be based as I said in a different number and would be only applicable to Spain, to Spanish assets.

Well, just to summarize, when you look to the impact on this, our estimate is that the impact in the EPS of Colonial in this potential scenario that as I say is uncertain will be between 1 and 2%.

That's our estimate and that's the guidance we would like to provide for this scenario.

18:02 - Pere Viñolas

So in a summary, and this is where I leave this point, if anything is to happen is uncertain, not certain.

If something has to happen there are different alternatives either taxing REITs or going in a different direction of just enhancing and changing the REIT regime. So different scenarios.

The guidance for the lower the worst-case scenario is that the impact on earnings according to our calculations would be between one and two percent of the EPS.

Besides this, my comment would be, well, there's no agreement that has been reached today.

18:57 - Pere Viñolas

We have to be open to potential scenarios in the future that will follow closely, but the base case is that we have a strong case for being reliable, for being comfortable on all the scenarios. We have a geographical diversification.

We have a number of characteristics into our balance sheet that gives us comfort in the future that this scenario may have. Well, I finished my comment on this.

19:36 - Pere Viñolas

It's a pity maybe that this happens this week because we are really happy with the results that we are having and we are not only happy about the results that we have achieved looking in the past, we are really excited about what we are going through and what we could expect in the next few months and for the next year. And we hope that this cloud that we have today is not hiding these fundamentals that we would like to share with you today.

20:09 - Pere Viñolas

Having said that, let's go into the next section on financial performance. I will ask the next speaker to step in. Carmina. Thank you

20:19 - Carmina Ganyet

Thank you Pere.

20:20 - Carmina Ganyet

And after this clarification and for the benefit of everybody, let's come back to the financial performance of these nine months of the year.

20:30 - Carmina Ganyet

So the first one is the gross rental income, which is growing 5%, again, on the back of the core portfolio and the project's deliveries. So the core portfolio is increasing 6% like for like. Thanks to the indexation, we will come later in more details, thanks to the pricing power and a better average occupancy during these nine months.

Second, positive impact with high percent, positive 5% due to the project deliveries that we delivered last year and are impacting the full nine months in 2024.

21:08 - Carmina Ganyet

These two positive effects of growing 12% are overcompensating the negative impact on the gross rental income due to the disposals that we did at the beginning of this year and last year.

So the year-on-year rental growth is growing, rental income, sorry, is growing 5 percent.

21:35 - Carmina Ganyet

If we go in more details for each market on page 10, again, this gross rental income is growing through the superior pricing power in the three markets, outstanding Paris with 7.4%, Madrid 3.7%, and Barcelona 7.3% again through the additional pricing power and through the additional average occupancy during these nine months. Basically, the driving forces of these 6.5% are thanks to indexation, 3.4%, the pricing power, meaning rental growth, 2 percent, as I mentioned, a high occupancy average during the period of 1.1 percent.

So consequently, it shows the strong performance, a strong growth on the EPS, accelerating towards the upper range of the guidance that we did at the beginning of the year.

22:39 - Carmina Ganyet

So, as you can see here, the earnings EPRA is growing 15% year-on-year, which I mentioned before, a positive impact of the core portfolio and the deliveries, as well the financial impact with a positive impact during these nine months, thanks to a reduction of the debt, so a better capital structure, and as well an active asset management during these nine months.

So it means that this 15% of the EPRA earnings is translating into a 9% growth in the EPRA EPS, which commits and we can guarantee that we are beating the upper end of the guidance.

So the full year EPRA EPS will be above this 32-cent-euros per share.

23:41 - Carmina Ganyet

So as you see, a strong performance of the operations, and as you know, during the year we have been able to reinforce the capital structure, and this is why the rating agencies have confirmed the rating, and moreover, Moody's has upgraded during the year our rating, as you can see in the summary of this slide, number 12.

24:06 - Carmina Ganyet

Basically, based on the leading position in the prime Paris and Madrid Barcelona office market, again, the capacity, the liquidity and access to the capital, and today all of the assets are unencumbered assets, and this upgrade by Moody's reflects this improvement of the sustainably lower leverage driven by the conservative financial policies with benefits of the recent capital increase we did during July.

24:39 - Carmina Ganyet

And in the same line, S&P highlights the strong competitive position in the low-risk market. And again, they highlight their view to generate this stable and predictable income despite the uncertainty that we passed during the last months of the year. And this basically has been translated in the numbers that you can see in page 13.

So a significant debt reduction in the last months, 500 million euros, meaning a long-term value of 36.5 percent, with an EPRA loan-to-value of 44.2 percent.

When we translate the net EBITDA considering the operating assets, this ratio shows a figure of 10.6 percent from 12 that it was at the beginning, and thanks to the capital increase, thanks to the disposals, Colonial is benefiting with a very strong liquidity position, more and 3.4 billion euros, out of which close to

900 million in cash, which means that thanks again to the, as you know, the hedge and the pre-hedge that we were able to close in a very low moment of the rates, we are still benefit of the cost of financing cost of 1.72 percent.

And after the cash management actively being managed during the year, the cost, the net cost of the net debt has been translated in these nine months in 1.38 percent.

26:19 – Pere Viñolas

Thank you.

Let's now step into the section on portfolio management.

26:25 - Carlos Krohmer

Thank you, Perre.

So I'm on page 15. So let's see the operations. At the end, it's also feeding future growth. All of that we signed today will be revenues in the coming months. So the third quarter in itself has been extremely outstanding. We've signed 47,000 square meters. Let's remind that the third quarter includes July and August, pretty quiet months in a quarter. Last year we signed 16,000 square meters, so we signed almost three times what we signed last year in the third quarter.

So momentum is very, very strong, I would even say, accelerating.

This gives us a year-to-date letting volume of 113,000 square meters. Remember that our normalized run rate is 100,000 square meters. With nine months, we have already done more than 100,000 square meters.

27:22 - Carlos Krohmer

In terms of economic value, the annual GRI that will generate all of these lettings, it's EUR 43 million, EUR 16 million, so close to 40% Paris assets and EUR 27 million Spanish assets.

Interesting element on the Paris portfolio, EUR 16 million for 16,000 square meters, so very clear to see the price, average price, 1,000 euro per square meter, EUR 16 million divided by 16,000, so high end rent.

27:55 - Carlos Krohmer

If we go then to the next page, on page 16, our occupancy profile remains super strong.

We are today at 4.1%, but 1.4% is non-like for-like entry of new elements.

On the one hand is the portfolio of Criteria that has entered now into our perimeter, and that gives us significant additional reversion.

28:21- Carlos Krohmer

And as you may remember, we have renovation programs going on.

We have delivered one in Barcelona, Diagonal 197, that now entries into operation.

So we have 1.4% of space with significant additional rents to be generated, six million additional reversion.

If we look from a like for like perspective, our vacancies 2.7%, vis-a-vis 2.9% at the beginning of the year.

Prime Paris is almost 100% let.

The Prime Madrid and Barcelona is 0.5% and 2.1% of the total vacancy is secondary, Madrid and Barcelona.

29:05 - Carlos Krohmer

If we step to the price performance of the things that we have done, you see it on page 17.

Indexation is coming down. Obviously, as everybody knows, in Madrid and Barcelona, we are at the 2% level. Paris is still at a higher level because we have the lapping technicality of the index, at least the ILAT index.

29:27- Carlos Krohmer

The interesting thing is when we compare the ERV growth, all of the contracts that we have signed with the indexation, what you can see is that Prime assets significantly outperform normal growth, normal CPI growth. So we have 5% of ERV growth for the full portfolio.

This means more than 200 basis points above the normal indexation run rate of our portfolio.

29:54 - Carlos Krohmer

The strongest market by far in terms of letting activity in Europe is Paris Prime, 300 basis points of outperformance to the indexation, 7% growth, Madrid 4% growth, Barcelona 3% growth.

Release spread remains extremely healthy, 8%, basically driven by a double-digit release spread in Paris, Madrid 1%, Barcelona flat, also a technical element of having had in last 18 to 24 months, a very accelerated and fast indexation in Spain that has made some sort of catch-up in the passing rents.

30:34 - Carlos Krohmer

But the important figure to look at is the rental growth that remains among the highest in the sector due to our prime asset portfolio. And then we have the Madnum project. It's a project that will be delivered in the coming months. We are progressing very, very well.

Just to remind you, this part is the office and retail part, the residential part was sold.

It's roughly close to 60,000 square meters, 58,000 square meters.

31:10 - Carlos Krohmer

Year to date, we have signed or having very strong conversations close to signing of about 17,000 square meters of extreme good momentum and more important than that, we are signing rental prices 7% above our underwriting that is implied in the 8% yield on cost.

So what you see on the 8% yield on cost, the prices that are there in that underwriting are being outperformed, are being beaten by 7%.

31:43 - Carlos Krohmer

And last but not least, sustainability GRESB rating has come out recently as all of you may know.

We remain at the European leadership with the five-star rating for the fifth year in a row, 92 on 100 on the investment benchmarks and 99 on 100 on the development benchmark.

As you know, one of our key competencies is Prime Factory to create the top product.

Here you see that the product is also top in sustainability terms.

32:15 - Pere Viñolas

Thank you.

Let me give you a final comment on the strategy of future growth and on our vision.

32:23 - Pere Viñolas

So let's start by saying that today, if let's say the average vision for an office company would be, okay, here I have an office company, here I have a bunch of assets that are not particularly appealing because this is an asset that is part of the market with no particular attractive balance between supply and demand, so no real mega trend that can support the rents going forward, and a not particularly exciting vision about the prospects that would be the average view. Our vision for Colonial is, Colonial is today two things.

33:10 - Pere Viñolas

One thing is prime positioning in the office market which is a different market with different fundamentals of supply and demand with therefore totally different expectations about future growth and value creation.

I will go through this in a minute.

So cannot be considered in the same way, for us it's a mistake.

33:40 - Pere Viñolas

And second, it's a platform that is able to develop growth through additional alpha creation based on urban transformation of the existing assets or the new assets through a view of office use of those assets or through a view of other asset class nature for these assets.

34:09 - Pere Viñolas

And this capacity of transformation is a part of the very basic element of Colonial which has and will deserve relevant returns on this.

So that's the story, we believe that it's a different story.

34:26 - Pere Viñolas

When we go more in depth, I'm in page 21, first, so let's look at the past.

So the past is our earnings in 2021 were EUR 128 million, our earnings expected for 2024 are EUR 187 million.

That means that our earnings have grown in this period, let's say, so challenging for our asset class, have been 46%. That is 13% CAGR in terms of earnings. If we talk about EPS, we've gone from EUR 0.24 to EUR 0.32, and I will be more specific right now about this.

35:12 - Pere Viñolas

So our history is already, for the last few years, the most part of the challenging period has been already double-digit earnings growth in terms of earnings or in terms of EPS.

35:30 - Pere Viñolas

Why is this happening?

35:32 - Pere Viñolas

As I was saying, if we look at Colonial just as a platform of offices, we say we are in a particular sub-market that has specific dynamics which are relevant for the value generation in terms of rental growth of the future.

35:52 - Pere Viñolas

Let's look at page 22 to give an example, this is Paris.

Here you can see the net absorption and net addition in the Paris Center West office rental market.

If you go through this chart, basically what you will see is that demand is like three times supply for an asset that has already very low vacancy.

So imagine any asset class, any other asset class that comes to you with no vacancy at the beginning and for an extended period of 10 years, you have net additions.

36:42 - Pere Viñolas

Here you can see, let's say, 100,000 square meters net absorption that is like 300,000. What would you say about that asset class and what you say we could expect about rental growth? which is when you can see on the right which is highly correlated with our performance in terms of earnings in the last few years.

37:10 - Pere Viñolas

Of course, it's not the same that if you talk about another market, for example, Paris periphery, where you can say that on average, net additions and net absorptions are roughly the same in a market that has already a certain degree of vacancy.

37:34 - Pere Viñolas

There you would say, I don't expect rents to grow.

37:39 - Pere Viñolas

Would you say that those markets are the same market? I would not.

I would say that the first market is a different market, and I would look at the company who can show strong positioning in this market in a different way.

That's our story about our base case.

And let me be more vocal about it.


38:05 - Pere Viñolas

I think that Colonial is quite unique in this positioning.

38:12 - Pere Viñolas

In page 23, you can see in the left, what's the positioning that we have in Paris CBD?

What's the rental growth attached to this positioning?



And this can compare to other peers that have a different position.
We fight quite a lot to have the position that we have.
It's quite different today, and we are quite happy about this.

38:41 - Pere Viñolas

On the right, you can see the same analysis done for Iberia, done for Madrid and Barcelona, that can also be compared to other peers in the industry.
So we believe that our positioning is strong, deserves rental growth, has already shown rental growth and should expect additional rental growth in the future.

39:10 - Pere Viñolas

And that is the first part of our equity story.

39:14 - Pere Viñolas

The second part of our equity story is we are in the mood of urban transformation, which as you know is nothing new for us. And that is adding a substantial additional value through these alpha projects that provide enhanced value for shareholders.

39:40 - Pere Viñolas

We have a number of projects that are able to deliver a 9% ungeared IRR, an 11% levered IRR that are sitting on different kind of natures from urban mixed use to business campus to life science and healthcare that can have the capacity to create value from EUR 1 billion to between EUR 1.4 and 1.6 billion.
That's the other driver of value that we are working on.

40:22 - Pere Viñolas

On page 25, you can see the different projects that currently we are working on both in France and both in Spain and the specific, that's the one we saw before, and the additional asset management expertise that can provide rental growth and value creation in other renovation programs that we are going through in France and Spain.

40:52 - Pere Viñolas

In a summary, in 2023, in adjusted terms, so to make it comparable, we were a company that was able to deliver 400 million euros of gross rental income. As I say, adjusted for certain assets to make it comparable.
We have a driver of new projects that are able to add EUR 80 million of additional gross rental income.
We have EUR 30 million additional coming from renovation program and AlphaX assets.
We have EUR 50 million potential coming from reversion and indexation.
That means that organic growth would lead us to well in excess of EUR 500 million, EUR 560 million, without any value coming from capital recycling.
If there was any capital recycling that we could benefit from, that would give us a full potential well above that figure.
So that's the outlook for the future.

42:00- Pere Viñolas

Conclusion is page 27.

42:04 - Pere Viñolas

It's a fact, the fact that Colonial has already delivered outstanding growth in EPRA earnings. The full year EPS has beat the upper range of guidance. Rental growth and project deliveries have been offsetting any impact coming from divestment. EPS and rental growth are again among the highest in the sector. So it's a reality of our performance that has already happened. This is based on our prime asset class which is outperforming the market. It's showing a strong occupancy with the highest rental growth.

42:54 - Pere Viñolas

We are in an outlook of asset valuation recovering faster, rental growth prospects very strong for the prime and in particular Paris outstanding performance in Europe and on top of that, Alpha projects adding additional value to our future growth profile and therefore I think that very strong expectations for the future so far after this delivery of strong results.

43:31- Pere Viñolas

Final comment maybe on EPS for 2024, we've been all year mentioning that we're having a good performance.

We were saying that at the beginning of the year, we saw the range of EPS. within EUR 0.30 and EUR 0.32 as we speak we can already confirm that by the end of this year our EPS will be above that range above 32 cents and that means that our guidance will have to be revised upwards.

44:08 - Pere Viñolas


That's it for the presentation and I will be pleased as usual to answer the questions you may have. Thank you.

44:20 - Moderator

Ladies and gentlemen, the Q &A session starts now. If you wish to ask a question, please press asterisk five on your telephone keypad. Thank you. We have the first question, Céline Soo-Huynh from Barclays. Please go ahead with your question.

44:45 - Céline Soo-Huynh from Barclays

Hi, Pere. I've got two questions for you. The first one is on your EPS guidance. Is it fair to say that you increased your guidance due to lower disposals, because I recall a target of EUR 500 million, and you've only done EUR 200 million so far.



And the second one is on the Socimi regime.
Sorry for that question again.

In the third scenario that you were mentioning in which the Socimi regime is revised, the 1% to 2% impact on EPS you see from higher taxes using tax credit and depreciation.
How long do you think it would last before the EPS gets hit more?
Thank you.

45:27 - Pere Viñolas

Thank you.

45:28 - Pere Viñolas

On the first question, the EPS outperformance, it's not coming from a revised version of disposals. It's coming from a stronger than expected top line gross rental income. Also, from a wise management of financial expenses on the debt side, both things together explain the vast majority, and let's not forget that this is happening in a year where we strengthened the capital structure of the company with additional equity coming from a new investor.
So I think that it's even better. It's EPS revised upward with lower leverage.
You know, the usual way of improving EPS is exactly the opposite, you know, leveraging companies. We are deleveraging the company and obtaining, let's say, better than expected EPS, mainly driven as I said, but by outstanding top-line growth and in particular also very good performance on the financial expenses side.

46:54 - Pere Viñolas

On the SOCIMI regime, good question from your side.
So you're saying, well, Colonial is giving a guidance of 1% to 2% impact.
You're mentioning two things, the tax credits and the depreciations.
Is this going to walk away? Well, no.
The depreciations are in standard, let's say, part of our P &L.
It's a number, therefore, that is part of our recurrent EPS and the recurrent P &L, number one.
Number two, the particular treatment of tax credits in Spain is that you can have a huge tax credit. You can use it without any time constraint, but you can only use it, let's say, to a very constrained limit every year.
So, as we mentioned, our tax credit is huge, it's EUR5.3 billion, it's huge, and according to the Spanish framework, there's no particular limit to use this over time, there is a limit of how much you can use per year.

48:19 - Pere Viñolas

The guidance we've given is already based on these elements, so limited use per year That means that the EPS that could be zero impact, well, it's still one to two percent.

But on the other hand, good news is that this is replicable in the future without any potential change envisaged in the next few years.

Thank you.

48:49 - Céline Soo-Huynh from Barclays

Thank you.

48:57 - Moderator

We move on now to the next question by Ana Escalante from Morgan Stanley.

Please go ahead.

49:06 - Ana Escalante from Morgan Stanley

Good evening. I have two questions, please.

The first one is on the figures that you show in the presentation from CBRE, both for rental growth and capital value growth.

If I'm reading that correctly, rents are slightly growing or stable in the next three years, but capital values are rising. Therefore, CBRE is assuming quite some yield compression in the forecast.

Is that the way to read it and whether you think that's feasible or whether you expect higher rental growth than what the guidance, like what do you think that will drive such strong growth in capital values in the next few years?

49:53 - Ana Escalante from Morgan Stanley

And the second one is related to your releasing spread and ERV growth figures.

So, if I look at the chart quarter by quarter, or like the table quarter by quarter, I see that in the third quarter, your signed leases is slightly lower spread over ERVs than the second quarter.

Is that asset-specific, or should we start thinking that ERV growth is slowing down or maybe even trended to zero?

50:31- Carlos Krohmer

Okay, thank you, Ana.

I will take this question, first of all, on the CBRE data.

50:40 - Carlos Krohmer

I think it's more CBRE to respond, but what we can say is, number one, as we've shown as an imbalance of supply and demand, there is a very strong fundamental on rental growth.

You see it in our presentation.

We have several pictures on it where there's super strong rental growth in the Paris market.

Obviously, then probably on the CBRE figures, there's a little bit of slight yield compression also, but the main element, we talk here about fundamentals, we talk about alpha.

We see, we can show factually, and we also see going forward that our product and prime product and especially the Paris market has the best growth profile as a consequence of imbalance of scarce supply and huge demand.

51:33 - Carlos Krohmer

And the second, on the third quarter, we signed a very little volume in Paris, and it's very contract specific. So we have slightly, not 1% below ERV. We have signed something, so almost at ERV. So we do not see at all any a contraction or slower pace on the rental performance, it's more the other way around. We are extremely confident and see rental growth going forward.

52:10 - Ana Escalante from Morgan Stanley

Thank you very much.

52:19 - Moderator

Next question by Markus Kulesa from Bank of America.
Please go ahead.

52:29 - Markus Kulesa from Bank of America

Hi, good evening, everyone.
Thank you very much for the call.

52:31- Markus Kulesa from Bank of America

I have two questions on the REIT regime, also quickly, and one on the potential SFL merger. So on the REIT regime, I think you confirmed just to say the EUR5 billion tax credit is included in the 1 to 2% EPS impact, so the impact is post-using tax credits, if I understand right. Then, why an 18.25 tax rate, I think you said, is applied, maybe I didn't follow exactly that.

53:04 - Pere Viñolas

Yes, if you want, let me answer on this, maybe Carmina can do better, but a Spanish law allows for a very limited use of your tax credit, which is up to 25% of the taxation that you could have.

53:22 - Pere Viñolas

So, imagine that instead of having EUR5 billion, we had EUR50 billion. The impact on the EPS would be the same because most of the, let's say, of the tax credit use that you could have per year, it's 25% of your taxable income. And so the 18.75 means that you can have, take a use of your tax credit, which drives you from 25 taxation to 18.75. Of course, you are only using a very limited part of the huge tax credit that you have. It's like having a small, it's like having a super big pool, which is a very small exit.

54:19 - Carmina Ganyet

Sorry, but to be specific, this limit of using this credit tax, we believe that it's going to be approved now. So today, you can have more benefit of the credit tax, but we are now in the worst scenario that trying to reduce, because it's a proposal, of the percentage of the users of this credit tax, if it happens at the end, but it needs to be approved.

54:45 - Carmina Ganyet

In the worst-worst case, so Socimi regime plus this additional limit of using this credit tax, the effective tax rate would be for Colonial 18.75%. This is the worst-worst scenario.

This is why the impact is 1.2% considering a Socimi taxable and the limit that needs to be approved, it's not now but needs to be approved, of this limit of pay tax.

55:17- Markus Kulesa from Bank of America

Understood, yes, so it's the worst worst case, exactly.

55:20 - Markus Kulesa from Bank of America

On the potential SFL merger, do you have, I know you don't have an exchange ratio, it's not ongoing, but can you guide on the EPS impact and just to make sure on the potential EPRA LTV impact it should be four percentage points lower LTV just for getting rid of the minorities?

55:47- Carmina Ganyet

Yeah, well, the EPS impact, of course, it will be based on the exchange ratio.

So it's not now what we have been started with the preliminary works. So we need to do the closing of the year. And then about the multi-criteria analysis, the fair parity, which is in this context, needs to be fair and validated for the third party.

It would depend, but it's not, it's we are buying or we are absorbing only 1.76 percent of the minority shareholders at an exchange rate or parity that it's fair, so immaterial impact or neutral.

56:34 - Carmina Ganyet

On the loan-to-value, long-to-value, the fact that it's a combined loan-to-value and the only impact will be this 1.2% adding these additional assets and debt, it will slightly improve but it's a 1% to 2% improvement so it's immaterial because the stake what we are absorbing from the minorities it's only 1.7%.

57:00 - Pere Viñolas

Yeah so just emphasize what Carmina just said no no matter know what how we finally execute this merger that would take place next year the fact that today we own almost 99% of a company whatever we do will have a very marginal improvement. Thank you Markus.

57:18 - Markus Kulesa from Bank of America

Thank you.

57:19 - Moderator

Now next question by Florent Laroche from ODDO BHF
Please go ahead with your question.

57:36 - Florent Laroche from ODDO BHF

Hi, good evening everyone. So thank you for the presentation.

I would have two questions. So my first question, I would come back to the SOCIMI regime.

So have understood what could be your impact on the EPS, but would you have maybe some impact when you dispose an asset or an impact on potential capital gains?

And in the midterm, is there no more SOCIMI regime?

So could we imagine that at the end you can think about changing a strategy or something like that? So that would be my first question.

And maybe my second question is if you can come back on the Madnum project, maybe to tell us, so now what is the occupancy ratio for this project or for predicting occupancy ratio for this project and how we can see the impact in the revenue coming for the coming period.

Thank you very much.

58:49 - Pere Viñolas

Thank you, Florent.

58:49 - Pere Viñolas

First of all, if you allow me, every time that we talk about this scenario of a revision of the tax regime, I will emphasize every time that we are talking about uncertain scenario, one of the many scenarios that we will have, and only the worst-case analysis.

But let me emphasize this because if you know, it's not the you, probably in general, I fully understand that it's so interesting this scenario that we may talk a lot about it, but maybe in the end what happens is that we bring this under the spotlight as it is the central scenario, which is not.

59:30 - Pere Viñolas

So having said that, I would say that first of all, any impact on our legal structure on our future and that have no comments on this, so we will certainly wait for the outcome of this because, as we can say, it's very, let's say, uncertain as of today.

59:56 - Pere Viñolas and Carmina Ganyet

You were saying if the impact on EPS can have additional consequences in the framework of sales. Well before going to this aspect, as Pere mentioned, if today has not been or has been postponed because there is no agreement on that sense, so I think we are in the scenario in a very remote spot, because if not today, it would be approved and agreed, and it wasn't the case.

1:00:29 - Carmina Ganyet

So the technically speaking, we don't know, so it's true that any capital gain in the future can be offset partially with the credit tax, but in this normally in any change of any tax regulation we need to look at the transitory rules because it's very difficult to, in the worst- worst scenario, to go from a non-taxation regime to a taxation regime without a transitory period.

1:01:02 - Carmina Ganyet

So, I think we would need to see if it happens, which today we don't know.

But in general terms, the same applies to the recurring EPS, which is offsetting partially with the trading tax.

The same would happen on any capital gain, potentially.

1:01:22 - Pere Viñolas

On the second question of Madnum, Carlos, please.

1:01:24 - Carlos Krohmer

The Madnum project is roughly 58 ,000 square meters.

It's different phases, super large project as you know, it will be delivered by different phases and blocks.

We are having extremely good momentum.

We have conversations and commitments of close to 17 ,000 square meters. This on the whole would be close to 30%. We are further advancing on it.

As I say, it's also being delivered in phases.

1:01:56 - Carlos Krohmer

So, we will try our best to really have as much as possible pre-let before delivering, but we are extremely confident it's one of the best products in the center of Madrid.

So, this is what we can say today about this project.

1:02:15 - Pere Viñolas

Thank you.

1:02:16 - Florent Laroche

Okay.

Thank you very much.

1:02:24 - Moderator

Next question, Fernando Abril from Alantra.

Please go ahead.

1:02:33 - Fernando Abril Martorell

Hello.

Good evening. and thank you for taking my questions. I have two, please.

1:02:36 - Fernando Abril Martorell

First is on commercial activity in Q3, which has been quite strong. So my question is around the increasing vacancy coming from the Project X.

So based on conversations you are having, I don't know how confident you are in leasing this up. So maybe any comment on this would be very helpful.

Secondly, you've reported quite good financial savings in Q3.

I understand that you have put the cash received from Criteria to work.

My question probably to Carmina is I don't know if you can give us an indication of the speed or the cost of debt for the near future, I don't know, for 2025 or 2026 would also be very useful.

Thank you.

1:03:26 - Carlos Krohmer

So maybe let's start.

1:03:29 - Carlos Krohmer

Well, the biggest part I would say of work that we have received on the Criteria is visionary building. It's a fantastic building.

We are totally convinced of the Mendez-Alvaro sub-market is one of the city center markets in Madrid with the strongest dynamic, with the strongest rental growth in recent years and going forward.

So we are really happy to have this product also in our portfolio. So we have there the square meters on this asset. It's an 8,000 square meter asset. 4,000 square meters are still to be led.

And we have our Mendez Alvaro project also that is now being delivered.

So, we are happy about these two positions there in this market.

It's an extremely good market and we will have additional rents from it.

So, we are encouraged, this is the biggest part.

1:04:23- Carlos Krohmer

On the other hand, we have fully repositioned Diagonal 197.

It's in the 22@ that today is a little bit more challenging but it's in the prime of the 22@ in the best location. So it should be one of the best performing assets in the 22@.

So, we also are confident, maybe it's a little bit for more work than in the Madrid market.

1:04:51- Carmina Ganyet

Related to the cost of debt, it's true that this year we have been benefitting of the cash management and some sort of cash pooling among the group to benefit of this extra cash being smartly deployed.

But for the next year, you know that we have a bond maturity of 1 billion euros, 500 in France, 500 in Spain. We have 50% of this debt pre-hedged at EURIBOR+ 0.67%.

1:05:26 - Carmina Ganyet

Basically, the spread from our bond if you go to the secondary markets for a paper of Colonial the spread would be in the range below 120.

So average speaking if you consider that next year we need to 1 billion euros, 50 percent per head and 50 percent at market levels, the cost of debt would remain below 2 percent basically.

1:05:53 - Fernando Abril Martorell

Below? Sorry?

1:05:55 - Carmina Ganyet

2 percent.

1:05:56 - Fernando Abril Martorell

2 percent?

The blended of the 1 billion?

1:05:59 - Carmina Ganyet

Yeah, the blended. Yes, 2. Yeah.

1:06:02 - Fernando Abril Martorell

Okay. Okay. Thank you very much.

1:06:04 - Carmina Ganyet

Thank you.

1:06:06 - Pere Viñolas

Thank you, Fernando.

1:06:12 - Moderator

And one more question by Thomas from Deutsche Bank.

Please go ahead.

1:06:19 - Thomas from Deutsche Bank

everybody. There's actually two questions.

One, sorry coming back on the tax topic again.


As I understand the main reason for the limited impact on your side is this 65% SFL portion.

I'm just wondering if you would have any idea about the impact without the high contribution from France.

And also, the 65%, I assume, refers to the profit contribution, is this correct?

1:06:59 - Pere Viñolas

I don't know what to say.



I mean, today, we are not a Spanish company, only limited to 35%. We are 65% subject to a different regime. Talking about a potential change in the tax regime in a worst-case scenario, these are the numbers that come.

And if we, instead of being at this company, we're another company, well, the impact would be a different one.

1:07:26 – Pere Viñolas

But I don't know, Thomas, if I'm answering your question.

1:07:31- Thomas from Deutsche Bank

Sure. Just wondering.

1:07:33 - Thomas from Deutsche Bank

Okay the second one is on your updated EPS guidance you say you know at the upper end what do you expect just wondering if you could get a bit more specific on that?

1:07:49 - Pere Viñolas

Yes I think that we said above EUR 0.32 maybe close to EUR 0.325 that would be our estimate today but of course we are in where we are in November and still not at the end, but definitely above the 32 upper level that we mentioned at the beginning of the year.

Thomas from Deutsche Bank

Okay, thank you.

Pere Viñolas

Thank you, Thomas.

1:08:22 - Moderator

And there are no further questions, therefore I give back the floor to Mr. Pedro Viñolas.

1:08:32 - Pere Viñolas

Well, thank you very much.

I think that it was a pleasure again to share with you the results.

As we said, we are very happy about the evolution and about our trend going forward.

So, we are very pleased to have the opportunity to share these results with you. So, thank you and have a very good day.