

Rating Action: Moody's affirms Baa2 issuer rating of Inmobiliaria Colonial SOCIMI S.A., changes outlook to stable

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Frankfurt am Main, April 18, 2019 -- Moody's Investors Service ("Moody's") today affirmed the Baa2 long term issuer rating of Inmobiliaria Colonial SOCIMI S.A. ("Colonial") and changed its outlook to stable from negative.

"The affirmation of Colonial's Baa2 long term issuer rating and the outlook change to stable, reflect a sustained robust operating performance supported by its leading position in the prime office markets of Paris, Madrid and Barcelona, cities that benefit from favorable economic environment and positive momentum of its key occupier and investment markets. Additionally we believe that the swift reduction of its leverage supported by the prompt integration of Axiare's portfolio and non-core assets disposals, together with its ample liquidity and commitment to maintain conservative financial policies will allow Colonial to successfully navigate through a potential stabilization of real estate cycle" says Ana Luz Silva, an Associate Vice President Analyst at Moody's and Lead Analyst for Colonial.

RATINGS RATIONALE

Colonial's Baa2 long term issuer rating primarily reflects its (i) leading position in the prime French (through its 82% shareholding in SFL) and Spanish office markets; (ii) positive momentum of its key occupier and investment markets, (iii) the strong tenant base and high occupancy rate of its portfolio, (iv) the reduced Moody's adjusted leverage down to 41.8% as of 31 December 2018 from 44.6% as of LTM June 2018, reflecting Management's commitment to a strong financial profile and (v) robust liquidity with a substantial amount of unencumbered assets.

Overall the robust operating performance of Colonial and its healthy credit metrics per end of 2018, better than our initial expectations, position the company with headroom in the rating category. Positive rating pressure could arise from realizing rent revisionary potential of its prime office portfolio and the successful execution of its project pipeline, which should translate into better earnings capacity.

Partly offsetting these strengths are (i) the company's still somewhat weak EBITDA-based metrics, with fixed charge coverage at 2.3x as of 31 December 2018, but expected to improve to 2.9x by 2019, (ii) the significant pipeline and its future needs as well as (iii) a history of highly cyclical property markets in Spain.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the company will continue to generate strong net rental income growth backed by robust occupancy levels. Moody's also expects that the company will maintain credit metrics commensurate with its financial policy, such as a reported leverage ratio between 36%-40% (39% as of 31 December 2018). The outlook also reflects an expected unchanged favorable operating environment in Paris, Madrid and Barcelona over the next 12 to 18 months

FACTORS THAT COULD LEAD TO AN UPGRADE

- The company continues to demonstrate solid execution and prudent financial policies through real estate cycles along a balanced growth strategy and an excellent track record of access to all forms of debt and equity capital
- Moody's adjusted gross debt to total assets sustainably below 40%, together with
- Fixed charge coverage around 3.5x
- Stable conditions for the Paris, Madrid and Barcelona office markets

FACTORS THAT COULD LEAD TO A DOWNGRADE

- A material deterioration of market conditions or of the KPIs of its property portfolio, such as vacancy rate, rental growth or WALT.

- Moody's adjusted gross debt to total assets above 45%
- Failure to improve fixed charge coverage sustained above 2.75x from 2019 onwards
- Weaker liquidity, including a reduction in unencumbered assets as a percentage of total assets or failure to refinance upcoming debt maturities well ahead of time
- Increased execution risks amid a potentially more aggressive growth strategy

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was REITs and Other Commercial Real Estate Firms published in September 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Inmobiliaria Colonial SOCIMI S.A. ("Colonial") is a real estate company that owns and manages a portfolio of prime office properties in Madrid and Barcelona (Spain) and, through the majority-owned Société Foncière Lyonnaise S.A. ("SFL", unrated), in Paris (France). As of 31 December 2018, the gross asset value (GAV) of the portfolio was €11.3 billion, of which 91% is constituted by prime office properties.

Colonial is listed on the Madrid stock exchange with a market capitalization of €4.7 billion as of 18 April 2019.

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Ana Luz Silva Robles
Asst Vice President - Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Anke Rindermann
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



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