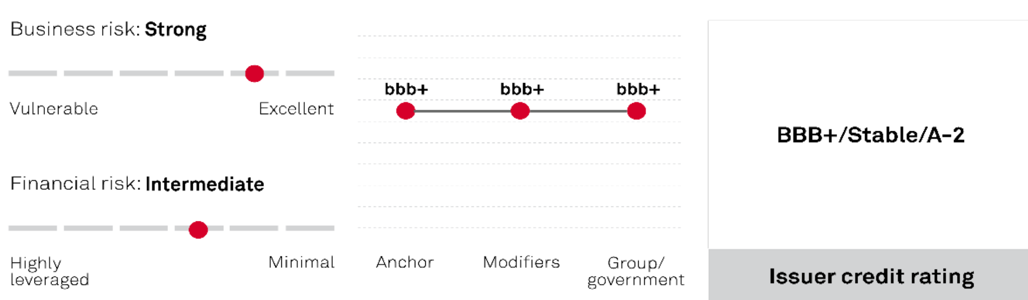
Inmobiliaria Colonial, Socimi, S.A.

May 15, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Sizable office assets worth €13 billion, with 80% of the gross asset value (GAV) in the Paris, Madrid, and Barcelona central business districts (CBDs), where supply remains scarce.	Economic uncertainty and business confidence could weigh on job creation, dampening demand for office space.
Well-located and high-quality portfolio (95% of GAV with green certifications), which should continue to attract tenants and maintain high occupancy rates (96% as of Dec. 31, 2022).	Uncertain interest rate environment and potential pressure on real estate valuations could weigh on credit metrics and reduce rating headroom.
Solid tenant base, mainly large corporations and multinationals, resulting in minimal disruption to rent collection as a result of the pandemic.	Reliance on the office segment, which displays higher volatility to economic cycles and is subject to expanding working-from-home trend potentially dampening demand over the medium-to-long term.
Moderate debt leverage (adjusted debt to debt plus equity of 41.8% at year-end 2022), strong liquidity, and a prudent hedging policy that limits the impact of rising interest rates.	

S&P Global Ratings expects Colonial's prime asset positioning, resilient letting activity, solid tenant base, indexation, and project deliveries will support cash flow visibility and growth. The group's assets consist largely of grade-A office properties in prime CBDs across Paris, Madrid, and Barcelona (80% of portfolio). We anticipate the scarcity of prime-quality, well-located, green-certified assets in Colonial's main locations will result in resilient occupancy and rental growth, despite our expectation of subdued economic activity and lower job creation weighing on business confidence. In 2022, the group posted strong operating performance, supported by significant letting activity, with 176,895 square meters signed (of which 61% were new leases) and 5% growth in rental prices compared with market rents (5% in Paris, 5% in Madrid, and 3% in Barcelona). Similarly, the release spread on renewals was 6% (6% in Paris, 6% in Madrid, and 5% in Barcelona). The strong commercial activity, coupled with persistently high inflation, resulted in a 7% like-for-like increase in net rental income, portfolio revaluation uplift of 1%, and stable high occupancy at 96% as of Dec. 31, 2022 (96% at year-end 2020). The company's strong tenant base, mainly composed of large creditworthy corporates, should continue to enable Colonial to pass on indexation to tenants without major difficulties, supporting its cash flow base growth as well as cash flow visibility and predictability. That said, we expect positive indexation to be mitigated by lower office demand and tenant departures, which may drive up vacancy rates. Fully pre-let project deliveries in 2023 should also contribute to cash flow generation and value creation. We expect rental growth of about 3.5%-4.0% in 2023.

Recent asset disposals strengthen the company's capital structure ahead of uncertain valuations territory. Despite market headwinds weighing on investment activity for commercial real estate assets, Colonial disposed of about €420 million in office and non-core assets in France and Spain (€57 million in France and €364 million in Spain) in line with or slightly below latest appraisals. Pro forma these disposals in 2023, Colonial's reported leverage, on a loan-to-value (LTV) basis, improved to 36.9% from 38.7% at year-end 2022, which corresponds to S&P Global Ratings-adjusted debt-to-debt-plus-equity of about 40.0% from 41.8% as of year-end 2022. This should enable Colonial to absorb potential portfolio devaluation from yield expansion while maintaining its debt-to-debt-plus-equity below our downside threshold of 45% for the current rating. While we believe prime CBD asset valuations will prove more resilient than older office assets in secondary locations, the current higher interest rate environment will weigh on commercial real estate asset valuations and the company's value-driven leverage metrics.

Colonial's credit metrics to remain within our rating thresholds, despite our assumption of a 5%-10% portfolio devaluation over the following 12-24 months. Large disposals completed in 2022 and year to date, which yielded over €500 million in sales proceeds, and the slightly positive portfolio revaluation as of year-end 2022 have increased the company's buffer to absorb further asset devaluations. Despite a +1% like-for-like increase in GAV for full-year 2022, Colonial saw a negative correction in three markets in the second half of the year (-1% in Paris, -4% in Madrid, and -4% in Barcelona) as yields expanded on the back of rising interest rates (valuation yields increased by 29, 24, and 17 basis points in Paris, Madrid, and Barcelona, respectively, in the second half of 2022). This weighed on asset valuations, after positive trends in the first half of the year. In the next 12-14 months, we assume further asset devaluations of 5%-10%. The current headroom built by an active asset rotation program and prudent financial policy should enable Colonial to absorb our assumed portfolio devaluation while maintaining its valuation-driven metric, debt-to-debt-plus-equity, below our 45% downside threshold. Additionally, we believe Colonial's cash flow generation profile, on the back of rental indexation, project delivery, and positive release spreads, should at least partially mitigate the yield effect on portfolio valuations. Similarly, the expected EBITDA base growth should also support debt-to-EBITDA metrics, which improved in 2022 to 18.6x from 19.4x at year-end 2021. We expect this trend to continue as Colonial aligns its capital expenditure (capex) and investment strategy with the new macroeconomic and financing context. This, coupled with EBITDA base growth on the back of rental indexation and project deliveries, should help the company preserve cash flow and strengthen its capital structure to contain the negative impact of asset devaluations on leverage. We expect debt to EBITDA will improve toward 16x in the next 24 months.

Limited upcoming debt maturities, a large pre-hedging position, and significant secured liquidity sources strengthen Colonial's debt service coverage in the current high interest rate environment and mitigate refinancing risks. Colonial's €2.4 billion notional pre-hedged position covers about 50% of the group's outstanding debt structure, providing significant interest expense protection in the current higher interest rate environment. Secured at the end of 2021 at 0.6%, these pre-hedges fully protect the group's interest rate profile until 2024 and partially thereafter, supporting the company's debt service coverage. The current hedging position will generate profits to compensate for the higher interest expense we expect as maturities are due and refinanced at a higher interest rate. Additionally, Colonial's debt profile has an average maturity of 4.6 years and limited short-term debt maturities, with €287 million (excluding commercial paper for €409 million as of year-end 2022) maturing in the next 24 months. This, coupled with expected EBITDA growth and the company's pre-hedging instruments, supports the company's debt service coverage over the next 24 months. Therefore, we expect rising interest rates will have a limited impact on Colonial's average cost of borrowing and forecast EBITDA interest coverage remaining above 3.5x in the next 12-24 months. Additionally, Colonial's large, undrawn committed facilities of about €2.2 billion maturing beyond 12 months and a cash balance of about €160 million as of year-end 2022 (excluding €421 million in proceeds from signed disposals year to date) mitigate refinancing risk and enable the company to withstand short-term liquidity needs without accessing new funding.

Outlook

The stable outlook reflects our view that Colonial will continue to generate stable and predictable income despite economic uncertainty, on the back of the high quality of its portfolio, mainly in the CBDs of Paris, Madrid, and Barcelona, and its robust tenant base. Credit metrics should also stay within the current thresholds for the rating despite the rise in interest rates.

Downside scenario

We would downgrade the company if, on a prolonged basis:

- EBITDA interest coverage dropped and stayed below 2.4x;
- Debt to debt plus equity increased meaningfully above 45%; or
- We saw material divestment or dilution of its Paris operations.

Upside scenario

We would upgrade the company if, on a sustained basis:

- EBITDA interest coverage increased above 3.8x;
- Debt to debt plus equity decreased below 35%; and
- Colonial ensured a stronger, more diversified cash flow base, as well as a new financial policy consistent with these stronger credit metrics.

Our Base-Case Scenario

Assumptions

- Real GDP growth in France and Spain of 0.4% and 1.1% in 2023, and 1.2% and 1.6% in 2024, respectively. We estimate consumer price inflation in both countries of 4.0%-6.0% in 2023 and 2.0%-4.0% in 2024.
- Like-for-like rental income growth of 3.5%-4.0% and 1.0%-1.5% in 2023 and 2024, respectively, supported by persistent high inflation indexation in France and Spain, partially offset by our expectation of lower letting activity on the back of subdued economic activity and some vacancy on 2024 project deliveries.
- Like-for-like decline in asset revaluation of about 5% in 2023 and another 2%-3% in 2024, driven by higher interest rates leading to yield expansion, partially offset by higher rents.
- EBITDA margin dipping in 2023 to 73%-74%, due to inflationary pressure on operating and commercialization costs and recover to earlier levels in 2024.
- No acquisitions in 2023-2024.
- Capex of about €200 million-€250 million in 2023 and about €100 million-€150 million in 2024.
- Dividend distributions of about €180 million per year in 2023 and 2024.

Key metrics

Inmobiliaria Colonial, Socimi, S.A.--Key Metrics*

Mil. €	2021a	2022a	2023e	2024f	2025f
EBITDA	244.4	284.5	275-300	300-325	325-350
EBITDA margin (%)	75.9	76.7	73-74	76-78	76-78
Dividends	138.9	168.5	160-170	170-180	180-190
Debt	4,731.6	5,282.5	5,000-5,100	5,100-5,200	5,200-5,300
Debt to EBITDA (x)	19.4	18.6	17-18	16-17	14-16
EBITDA interest coverage (x)	1.8	3.0	3.5-4.0	3.5-4.5	4.5-5.5
Debt to debt plus equity (%)	39.7	41.8	41-43	43-45	43-45

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

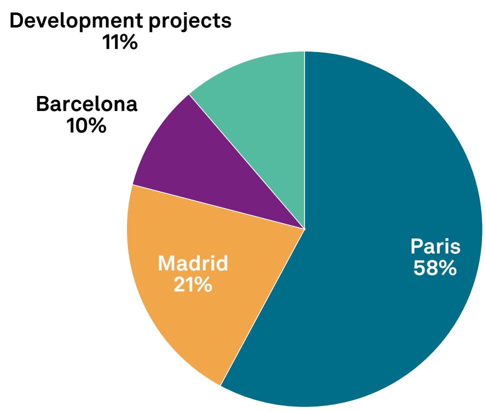
Company Description

Colonial is a key player in the European prime office market, with a presence in the main business areas of Barcelona, Madrid, and Paris. Colonial's portfolio mainly includes office assets (more than 90% of total GAV) with a clear focus on CBDs, where about 80% of its assets are located. As of Dec. 31, 2022, Colonial owned a portfolio valued at €13 billion. Its stake in core subsidiary Societe Fonciere Lyonnaise (BBB+/Stable/A-2) is 98.3% as of Dec. 31, 2022.

The company is listed on the Spanish stock exchange IBEX 35 and its main shareholders are the Qatar Investment Authority (19%), Grupo Finaccess (15%), Aguila Ltd (5%) and Autocartera (1.5%). The remaining stake is free float.

Inmobiliaria Colonial, Socimi, S.A. --Portfolio Summary	
Segment focus	Office
Total portfolio value	€13 billion
Total gross leasable area	1,688,149 sqm
Occupancy	96%
Average lease maturity*	Paris, 10.5 years; Madrid, 8.2 years; Barcelona, 7.9 years
Overall portfolio quality§	Prime portfolio in terms of location and asset quality (EPRA net initial yields, Paris: 2.4%; Madrid, 3.3%; Barcelona: 3.0%)
Operational properties with sustainability certifications	95% of gross asset value is BREEAM/LEED certified
Market capitalization†	€3.2 billion
*Average lease maturity of contracts until their expiry date. §S&P Global Ratings' view. †As of April 14, 2023. EPRA—European Real Estate Association.	

Inmobiliaria Colonial, Socimi, S.A. -- Geographical Diversity By GAV



GAV--Gross asset value. Sources: S&P Global Ratings, company report.

Peer Comparison

Inmobiliaria Colonial, Socimi, S.A.--Peer Comparison
Industry sector: Real estate investment trust or company

	Inmobiliaria Colonial, Socimi, S.A.	Gecina	Aroundtown S.A.	Icade S.A.	Societe Fonciere Lyonnaise S.A.	Merlin Properties Socimi S.A.
	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Positive/--
Business risk profile	Strong	Strong	Strong	Satisfactory	Strong	Satisfactory
Financial risk profile	Intermediate	Intermediate	Intermediate	Intermediate	Intermediate	Intermediate
Portfolio value (bil. €)	13	20	28	15	8	11
Assets diversity	Offices 97%; Retail and others 3%	Offices 80%; Residential 20%	Offices 43%; Residential 32%; Hotel 18%; Retail 5%; Logistics/Other - 2%	Office 66%; Health care 34%	Offices 81%; Retail 18%; Residential 1%	Offices 60%; Shopping centers 20%; Logistics 13%; Other 7%
Occupancy (%)	96	93	92	89.0% for office segment and 83.7% for health care segment	100	95
WAULT (years)	Paris, 7.7 years; Madrid, 4.6 years; Barcelona, 3.3 years	6	8	4	6	3
Top 10 tenants (as a % of GRI)	N/A	27	<20	N/A	43	N/A
Geography diversity	France 63%; Spain 37%	Paris 59%; Paris region 36%; Other regions 5%	Germany 70%; Netherlands 4%; U.K. 8%; Other 18%	France 100%	Paris CBD 77%; Paris other 22%; Western Crescent 1%	Spain ~91%; Portugal ~9%
Development exposure (as a % of GAV)	<5	~20	~8	N/A	~20	N/A
EBITDA interest coverage (x)	3	6	4	6	5	3
Debt/EBITDA (x)	19	15	16	11	14	11
Debt/debt and equity (%)	42	37	49	45	31	36

Source: S&P Global Ratings, latest company reports. N/A--Not applicable. WAULT--Weighted average unexpired lease term . GRI--Gross rental income.

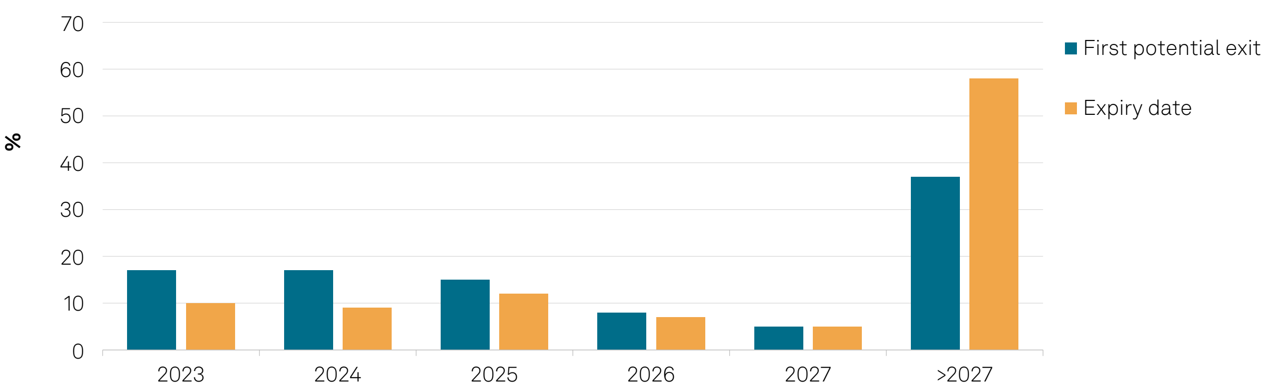
Business Risk

We continue to note the high quality of Colonial's office real estate portfolio in France and Spain, valued at €13 billion at year-end 2022. The company's properties are mostly in the CBDs of Paris, Madrid, and Barcelona, where the supply of good-quality assets remains scarce. The number of

Colonial's properties in these areas (80% of total GAV as of year-end 2022) compares favorably with that of other European office owners, such as Icade and Covivio. We believe the shortage of high-quality, green-certified office space in these three cities, particularly in the CBDs, as well as continuously high demand from tenants in these areas, should support rental income growth over the next 12-24 months despite the economic and job creation slowdown we expect as a result of the higher interest rate environment.

That said, Colonial benefits from long leases (average remaining term of 7.7 years in Paris, 4.6 years in Madrid, and 3.3 years in Barcelona) and only 10% of leases expiring in 2023. The company also enjoys a strong tenant base, mainly composed of large creditworthy corporates, with only a limited share of small and midsize enterprises. This should mitigate any nonpayment or rent-reduction risk in the challenged market environment. In the current inflationary context, driving pressure on rental burden on tenants, we view Colonial’s creditworthy tenant base as supportive of cash flow base growth as well as cash flow visibility and predictability. Colonial should also benefit from additional rental income from Utopicus, its flexible office offering subsidiary in Spain. The shorter term nature of Utopicus' leases, compared to traditional lease contracts, offers Colonial’s tenants additional flexibility to align their floorspace with their needs. We understand Utopicus' contracts are short-to-medium term (usually more than one year) and that its tenant profile is robust, with no significant exposure to small companies.

Inmobiliaria Colonial, Socimi, S.A. -- Commercial Lease Expiry



Source: Company report.

We expect the subdued macroeconomic context to weigh on job creation and therefore new demand for office space. Therefore, we expect a slowdown in new office uptake. That said, office supply remains historically low in Colonial’s asset locations, and the supply-demand imbalance should drive growth in market rents. Additionally, we expect the indexation to support rental growth, since the majority of its lease contracts are inflation indexed. That said, we expect exits from some tenants and ensuing refurbishment periods to partially offset indexation. We forecast lower positive like-for-like rental growth (compared with positive 7.2% in 2022) on the back of a decline in occupancy, either due to maturing leases or assets undergoing redevelopment, some of which, mostly in Barcelona, with still-low pre-letting visibility.

Colonial remains exposed to country risk in Spain, where a high proportion of its assets are located (about 37% of total GAV). Our assessment of the company's business risk profile factors in the historical volatility of the Spanish office market, especially compared with more mature and deep markets, such as Paris, Brussels, or Berlin. Colonial is also concentrated in the office segment, an asset class that we continue to view as less resilient than other real estate segments in Europe, such as the German residential segment.

Financial Risk

Our assessment of Colonial's financial risk profile is underpinned by the company's prudent financial policy and commitment to maintaining robust credit metrics commensurate with our rating. This includes an EBITDA interest coverage ratio above 2.4x and a LTV ratio of 35%-40% (equivalent to a debt-to-debt-plus-equity ratio of 40%-45%). The company's recently completed asset disposals for about €420 million year to date and prudent investment strategy should provide an additional buffer to absorb our expectation of asset portfolio devaluations from rising interest rates and cap rate expansion. Similarly, the company has completed these asset disposals in line or with small discounts to the latest valuations at year-end 2022, confirming independent appraisers' valuations and investor demand for primer office assets despite the current economic uncertainty.

Colonial's debt-to-debt-plus-equity increased to 41.8% at year-end 2022 on the back of increased debt as a result of acquisitions and capex investments undertaken in 2022, mainly due to the close to €500 million Pasteur acquisition in Paris. That said, pro forma for the completed asset disposals in first-quarter 2023, Colonial's reported leverage, on an LTV basis, improves to 36.9% from 38.7% at year-end 2022. Additionally, the cash flow base growth effect from indexation and project deliveries in 2022 compensated for the negative impact from rising yields on Colonial's portfolio valuation. Colonial posted 1% like-for-like growth of its portfolio value, with Paris being the largest contributor with +2%, Madrid +1%, and Barcelona -2%. We forecast negative property revaluations of about 5% in 2023 and a further 2%-3% in 2024, which will weigh on valuation-driven metrics. That said, we expect debt-to-debt-plus-equity to remain below 45%, in line with the financial policy of maintaining LTV below 40%. This is thanks to the company's prudent financial policy focusing on asset rotation initiatives to strengthen its capital structure and its high visibility on its cash flow growth generation

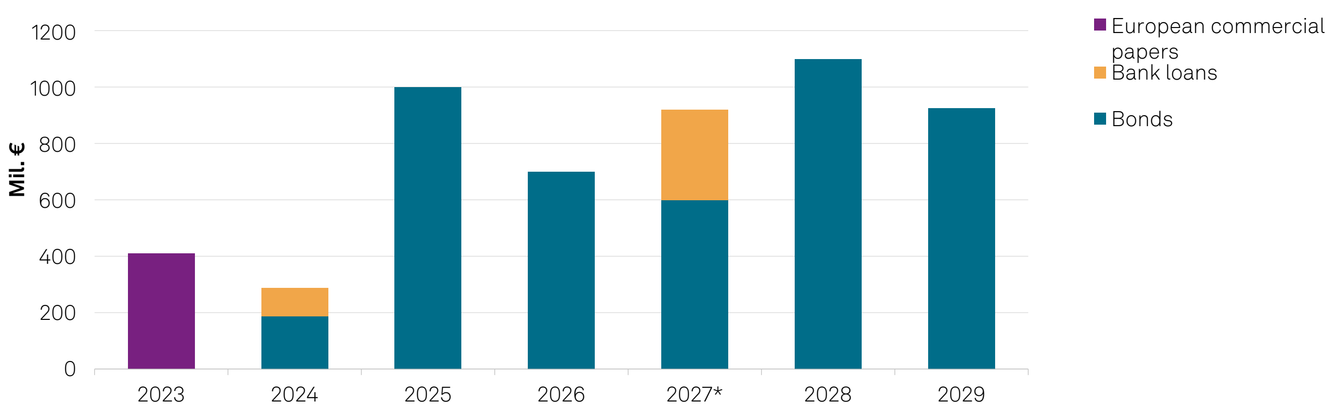
At the same time, we expect debt-to-EBITDA and cash flow-driven metrics, which have remained elevated on the back of large capex plans and active asset rotation, to reduce. We understand the company has adjusted its investment plans for the new, more expensive financing, prioritizing mature and stable asset disposals. Similarly, the growing rental and EBITDA base--fueled by positive indexation as well from the contribution of fully pre-let project deliveries over the next 12 months--should result in improving credit metrics. We expect Colonial's debt to EBITDA to improve toward 16.0x-18.0x from 18.6x at year end 2022.

Lastly, Colonial's large €2.4 billion notional pre-hedged position, covering about 50% of the group's outstanding debt structure provides significant interest expense protection in the current environment. Additionally, the low short-term refinancing needs (€287 million in the next 24 months, excluding the €409 million under the commercial paper program) limits the negative impact from rising interest rates on Colonial's debt service capacity over the next 24 months. This, coupled with our expectations of EBITDA growth, should result in EBITDA interest coverage remaining above 3.5x in the coming 12-24 months.

Debt maturities

Colonial's average debt maturity is 4.6 years.

Inmobiliaria Colonial, Socimi, S.A.-- Debt Maturity Profile



* Pro forma for year to date completed disposals; Source: S&P Global Ratings.

Inmobiliaria Colonial, Socimi, S.A.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	286	354	364	347	322	371
EBITDA	211	278	285	275	244	285
Funds from operations (FFO)	87	129	199	114	89	173
Interest expense	87	112	103	132	133	96
Operating cash flow (OCF)	156	36	233	90	127	149
Capital expenditure	133	315	263	209	309	709
Dividends paid	90	130	132	135	139	168
Cash and short-term investments	1,105	68	217	269	219	160
Debt	4,215	4,763	4,728	4,651	4,732	5,283
Common equity	5,680	6,102	6,960	6,833	7,184	7,343
Valuation of investment property	9,212	11,109	12,196	12,020	12,436	13,005
Adjusted ratios						

Inmobiliaria Colonial, Socimi, S.A.--Financial Summary

EBITDA margin (%)	73.7	78.7	78.2	79.4	75.9	76.7
EBITDA interest coverage (x)	2.4	2.5	2.8	2.1	1.8	3.0
Debt/EBITDA (x)	20.0	17.1	16.6	16.9	19.4	18.6
Debt/debt and equity (%)	42.6	43.8	40.4	40.5	39.7	41.8

Reconciliation Of Inmobiliaria Colonial, Socimi, S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	5,416	6,159	371	285	128	87	285	255	168	709
Cash taxes paid	-	-	-	-	-	-	(5)	-	-	-
Cash interest paid	-	-	-	-	-	-	(106)	-	-	-
Lease liabilities	20	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(160)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	9	-	-	-	-
Share-based compensation expense	-	-	-	5	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	1	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(106)	-	-
Noncontrolling/ minority interest	-	1,183	-	-	-	-	-	-	-	-
Debt: Guarantees	7	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(6)	(6)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	147	-	-	-	-	-
Total adjustments	(134)	1,183	-	(1)	142	9	(111)	(106)	-	-

Reconciliation Of Inmobiliaria Colonial, Socimi, S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	5,283	7,343	371	285	270	96	173	149	168	709

Liquidity

We view Colonial's liquidity as strong, with a ratio of liquidity sources to uses above 1.5x for the 12 months started Jan. 1, 2023, and higher than 1x over the following 12 months. This is supported by the company's €2.24 billion of available backup facilities and moderate capex and the absence of large debt maturities in the next 24 months, enhancing its ability to withstand high-impact, low-probability events without the need to refinance. Additionally, the company's long track record of solid relationships with banks supports its liquidity profile, in our view.

Principal liquidity sources

- €79 million of unrestricted cash and cash equivalents;
- €2.24 billion of undrawn committed backup facilities;
- About €200 million-€220 million of annual funds from operations; and
- €421 million from asset sales.

Principal liquidity uses

- €409 million of debt maturities, mainly related to commercial paper;
- About €250 million-€260 million of capex; and
- About €160 million-€180 million of planned dividend payments.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5

Environmental	Social	Governance
- Climate transition risks - Other environmental factors	- N/A	- N/A

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

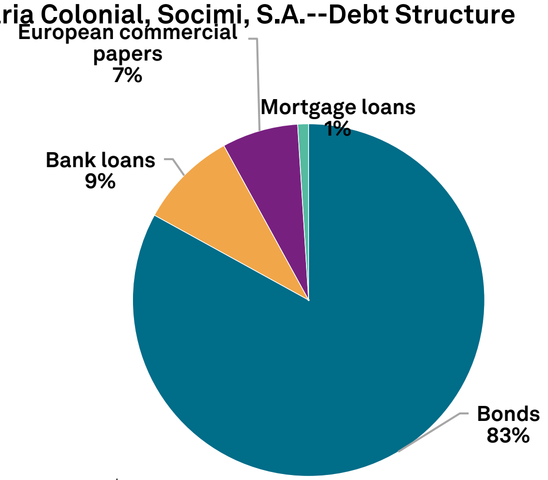
Environmental factors are a positive consideration in our credit rating analysis of Colonial. In total, 95% of its portfolio by GAV is BREEAM or LEED certified, and its buildings are centrally located close to large public transportation. In our view, this help to attract high-quality occupants and support its strong competitive position, since we understand tenants have increased their focus on the sustainability of buildings. These features emphasize the quality of its assets and translate into solid rental growth and high occupancy levels. In line with the company's commitment to develop nearly zero-energy buildings, Colonial will develop the first office building in Spain made entirely of wood. This pioneer project reflects Colonial's engagement on emissions reduction and search for building processes that are less harmful to the environment, at all stages of the building life cycle, from construction to operation. The building will, as a result, have the highest environmental certification (LEED platinum and WELL platinum). Additionally, 90.5% of Colonial's outstanding debt and 100% of its bonds are classified as green, becoming the first IBEX35 company with such a high proportion of sustainable unsecured financing.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2022, Colonial's debt is almost all unsecured with only one encumbered asset and a total of €76 million in mortgage debt. Pro forma the completed acquisitions year to date, Colonial no longer has mortgage debt in its capital structure.

Inmobiliaria Colonial, Socimi, S.A.--Debt Structure



Source: Company report.

Analytical conclusions

We see limited subordination risk for Colonial's unsecured debt with regard to secured debt outstanding in its capital structure. The ratio of secured debt to total assets at the end of 2022 was below 1% (only €76 million of mortgage debt already repaid post asset disposals completed in first-quarter 2023), well below our threshold 40%, so we continue to align our issue rating on the unsecured bonds with the issuer credit rating on Colonial.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Ratings Detail (as of May 03, 2023)*

Inmobiliaria Colonial, Socimi, S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Issuer Credit Ratings History	
18-Oct-2018	BBB+/Stable/A-2
19-Apr-2017	BBB/Stable/A-2
29-May-2015	BBB-/Stable/A-3
Related Entities	
Societe Fonciere Lyonnaise S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.