

# BRC Ratings

A Company of **S&P Global**

Colombia

## Rating Report

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ESTRATEGIAS INMOBILIARIAS TRUST'S (PEI)  
EQUITY SECURITIES  
PROGRAM, managed by  
Pei Asset Management S.A.S.

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PERIODIC REVIEW	
EQUITY SECURITIES	i AAA Rating
Figures as of December 31, 2021:	Rating history:
Program's total value: COP 7.61 billion	Periodic review Mar./21: iAAA
Total value placed: COP 3.7 billion	Periodic review Apr./20: iAAA
Group of assets making up PEI: 150	Periodic review Apr./19: iAAA
	Initial rating Dec./06: i AA+

### Introduction

Unlike debt instruments, the securitization of real estate-backed equity securities acquires no obligation to pay neither capital nor interest; therefore, there is a particular scale for this type of instrument (i-rating awarded). These types of issues are done through investment vehicles that develop, purchase, and manage commercial real estate assets and rent space to tenants that pay for their rent. After the vehicle's operating expenses are covered, 100% of its distributable cash flow is distributed among investors as yields. Additionally, these vehicles' return includes the real estate assets' commercial appreciation value.

The rating of real estate equity securities constitutes an assessment of the vehicle's likelihood to generate the projected returns and recover the investors capital. Thus, the analysis focuses on the factors determining the financial and operational stability of the vehicle, mainly the rental flows, the properties' appreciation, and the manager and the other related parties' capacity to comply with the placement prospectus guidelines.

**I. RATING'S BASIS:**

Bogota, March 25, 2022.- BRC Ratings – S&P Global S.A. Sociedad Calificadora de Valores's Technical Committee confirmed, during its periodic review, the i AAA rating for the real estate equity securities issued under the Estrategias Inmobiliarias Trust's (PEI) Equity Securities Program.

PEI has is very likely to generate the projected returns and recover the capital, given the quality and characteristics of the underlying assets (appreciation outlook) and the flows from the rental fees, which are consistent with the i AAA rating's definition. The rating is based on the fulfillment of the vehicle's profitability target, invested capital's recovery within the proposed term (10 years), and continuous growth of the securities' value.

In spite of the consequences of both the pandemic and the social protests taking place in 2021, the vehicle's annual profitability exceeded that of 2020, mainly driven by the economic reactivation of the sectors that PEI's real estate assets belong to, the CPI's increase that translated into an appreciation of the assets, and the gradual reduction of the economic reliefs granted to certain tenants.

We estimate that the vehicle's income generation will continue to be positive in 2022 and exceed that of 2021, as the country's economic reactivation progresses and certain properties stabilize, favoring the flow of income. However, we will do particularly follow the incomes evolution this year, considering the political uncertainty from the presidential elections, the market's, situation, and the impact of reliefs reduction.

Annual profitability in 2022 may exceed that of 2021, considering that the assets appreciation would include inflation. It is worth noting that the manager has robust tools enabling it to mitigate these aspects, such as its institutional strength, fitting governance policies, and the portfolio's diversification and long-term investment horizon.

**Assets Portfolio**

The real estate assets portfolio has remained high quality, thanks to the robust process that PEI follows upon by making any investments and its high degree of connection with and knowledge of the real estate market in Colombia. The acquisitions made in 2021 reduce concentration per type of tenant and increased the portfolio's geographical diversification and per type of asset, abiding the relevant limits established in the prospectus.

We believe that in the short and medium terms, the vehicle's profitability levels will continue to be above its peers' average. This, given the greater dynamism in the country's economic reactivation, particularly in segments such as offices and logistics, and the vehicle's historical high contracts retention, certain logistics segment's agreements reconversion, and the entry of stabilized real estate assets under built-to-

suit schemes (BTS) such as *Rivana Tower Business Park* in Medellin, two *Sanitas* medical centers, and *D1* supermarket chain's *Koba* warehouse in Ibague.

### **Portfolio Diversification**

Geographic diversification, measured by rental fees, has slightly improved compared to our last periodic review. Although Bogota remains to be the main city with the highest participation, its concentration decreased to 49.5% in 2021 from 53% in 2020. The cities that follow are Cali, Medellin, and Barranquilla with concentrations of 13%, 10.6%, and 4.9% respectively, not exceeding the limits established in PEI's rules. We do not expect Bogota and its neighboring areas to reach the limit established in the prospectus (85% of the entire portfolio's appraisal value), because the 2022-2023 acquisition plan includes a greater proportion of the leasable area in other cities.

With respect to participation per tenant, the vehicle continues to be properly diversified and satisfactorily meets the annual income's 20% limit. *Grupo Bolivar*, the largest tenant, maintains a 9.7% participation, in line with the prior periodic review. Others, such as *Almacenes Exito*, *Frontera Energy*, and *Tampa Cargo*, do not exceed 5% of projected income. For 2022, PEI foresees *TIGO*, *EMO*, and certain clients of the telecommunications and construction sectors to enter the vehicle's top 20 tenants list.

Assets under management (AUM) are primarily classified into four business lines: retail, corporate, logistics, and specialized sectors. Composition per business line as of December 2021 changed, compared to our prior periodic review, but remains within the 70% limit established per type of asset. The relevant changes refer to a decrease in the concentration of corporate --from 43% to 34%--; a slight variation in the participation of warehouses --from 18% to 17%--; a participation increase in shopping centers and commercial premises --from 36% to 44%--; and an increase of the specialized category -- from 3% to 5%. We do not believe that any segment has reached its limit, thus reflecting the consistency between the assets acquisitions and the investment policies established.

### **Portfolio Management**

PEI's acquisitions rely on their compliance with the manager's investment criteria, i.e., having income-generation or appreciation potential, among others, due to their location, and increasing the portfolio's diversification level. The increased assets' occupancy, a reduction of the economic reliefs, and the CPI's increase had a positive impact on appreciation in 2021.

At the end of 2021, economic vacancy increased from 8.6% to 9.7%, while physical vacancy dropped from 8.8% in 2020 to 6.9%, mainly driven by a larger placement of square meters in assets such as *Torre Pacific*, *Bodega Yumbo*, *ZFP*, *Plaza Central*, and *Jardin Plaza Cucuta*.

PEI projects physical vacancy to range between 6.5% - 7.5% in 2022. We believe that reaching the vehicle's long-term target vacancy of 6.5% will take a little longer than the PEI's estimates, given the current global macroeconomic scenario and that 28% of the agreements (associated with commercial assets) will expire in 2022. Thus, we will monitor this metric's performance to incorporate any changes that may have an impact on the portfolio.

In 2022, the net receivables to operating income ratio amounts to 1.41%, driven by the payment of deferrals, commercial payment arrangements in the commercial, logistics, and corporate categories, and the recovery of overdue receivables associated with *Plaza Central*, *Atlantis*, and *Jardin Plaza Cali*.

For further details on the qualitative aspects of PEI Asset Management's administration as the vehicle's manager, please refer to the document PEI's Portfolio Management Efficiency, rated G aaa, posted at [www.brc.com.co](http://www.brc.com.co).

### **Profitability**

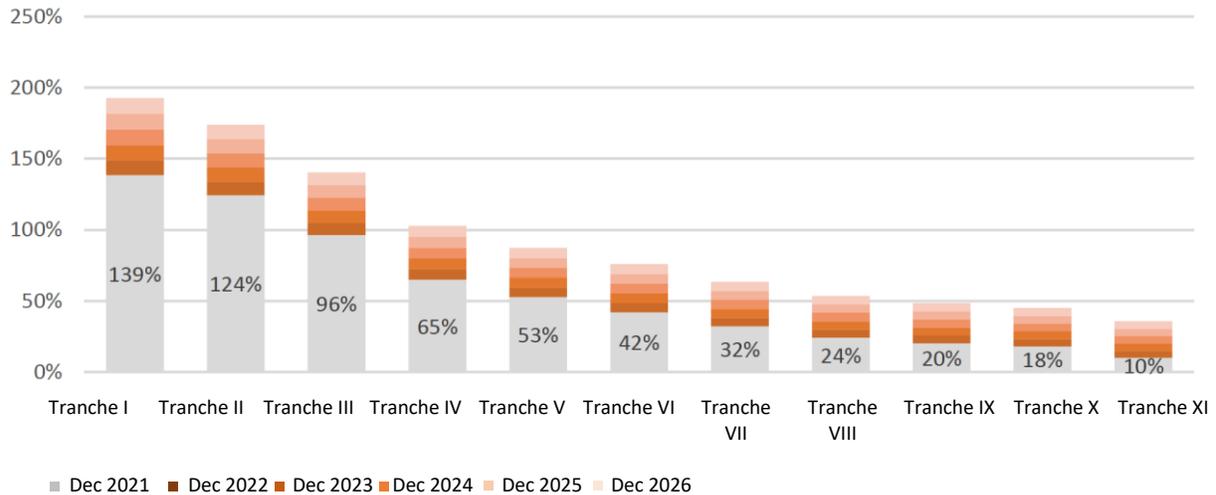
Historical long-term profitability shows a downward trend, steady very close to the target (12.8% as of Dec 2021 v. 13.1% as of Dec 2020). We believe that factors such as the effects of the pandemic, the social protests of 2021, the real estate assets' appraisals, the securities' valuation at market prices, the assets oversupply that continues to exist in certain segments, and the entry to the national market of new vehicles with similar characteristics reduced the security value's growth speed compared to what was previously observed. Therefore, accumulated profitability since the start of operations is increasingly closer to the program's target profitability.

As of December 2021, the adjusted operating cash flow (operating cash flow less capex, working capital investments, and financial expenses) was COP 220.450 million, 66% higher than in 2020 and in line with the figure budgeted for 2021. This resulted from an increase in income driven by the economic reactivation and a reduction of the average debt service.

For the end of 2022, PEI expects an 8% growth of the distributable cash flow (DCF), including acquisitions, considering the increased revenues from business lines such as corporate and warehouses driven by the economic reactivation and the end of the reliefs granted to certain tenants as a result of the Covid-19 health emergency. Similarly, for the period 2023 - 2026 PEI expects to have an average base growth of 6%. We also observe that capex is exceeding that of the last three years and will be used to carry out renovations of and adjustments in the properties that were postponed due to the Covid-19 health emergency and the social protests.

We estimated our stress scenario based on PEI's cash flows forecast until 2026 and our assumption of lower revenues and the historical average levels for the capex and the operating and administrative expenses, without including securities issues. The result of this scenario shows that even under our conservative assumptions and, without considering any securities issues, the vehicle may generate a positive and stable operating cash flow that will allow investors to recover their initial investment through the distribution of dividends in the long term (see Graph 1).

**Graph 1**  
BRC's distributable cash flow projections per tranche



Source: PEI. Graph: BRC Ratings – S&P Global

The bond issues in 2018 and 2019, for COP 1,000,000 million, made it possible to diversify the financing sources, reduce the principal maturities' concentrations in the short and medium terms, and decrease the debt service, which we weighed in a positive manner. At the end of 2021, PEI's indebtedness amounted to COP 2.74 billion (including bonds), which corresponds to 35% of the assets under management's value.

### Secondary market and investors

The number of transactions in the secondary market decreased during the last year due to the change of the equity securities' valuation methodology and the current macroeconomic situation. Considering that the security's value in the secondary market has been trading below the reference price, we will monitor its performance in light of the markets' current volatility and the possible change of the investors' preferences for other types of species in the securities market.

## II. FACTORS TO MODIFY THE RATING

What may lead us to confirm the rating:

- Generation of stable distributable income and the investors capital's preservation.
- Compliance with the acquisitions plan and the financial projections.
- Strengthening and fulfillment of the vehicle's real estate manager's --Pei Asset Management-- duties, as well as those of any other parties to any transaction.

What may lead us to lower the rating:

- The equity securities' profitability level below the sustained target, either as a result of a lower appreciation of the real estate assets or an impact rental flows.
- The lower diversification of the portfolio's real estate assets by geographic location, type of asset, or tenant.
- The deterioration of PEI's cash flow as a result of any factor associated with an income decrease or expense growth that affects the distribution of returns to the equity securities holders.

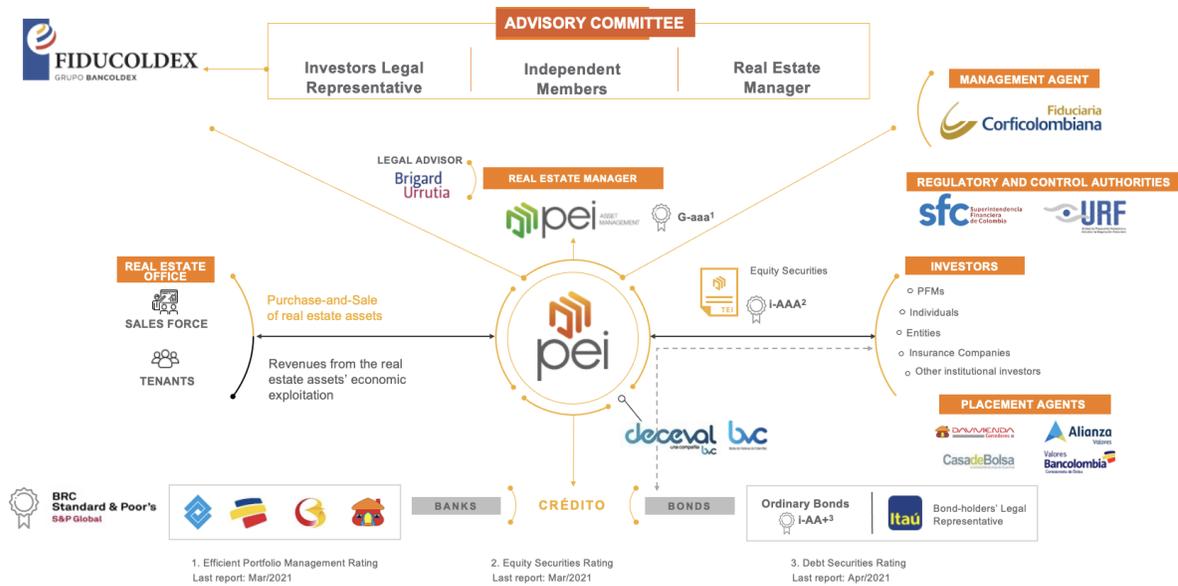
### **III. SECURITIZATION'S DEFINITION AND STRUCTURE**

The obtainment of the resources to constitute the Estrategias Inmobiliarias Trust began with the issuance of securities backed by the rights and obligations under the promise of purchase and sale agreements on the real estate assets, previously executed with their owners. The trust only buys properties that are already rented (otherwise, it requires the Advisory Committee's approval), a condition aimed at ensuring the income's stability after the relevant investment is made.

The purchase agreements are executed with the resources from the issue and the assets become property of the trust. These assets constitute the investment portfolio making up PEI and are managed by a professional operator in charge of all the operational processes associated with the maintenance and operation of the facilities (surveillance, cleaning, management, among others).

The trust's main revenues come from the rent of the assets owned which, after any relevant issuance, management, and operation costs and expenses are paid, mainly become the distributable income that, together with the assets' appreciation or depreciation, determine the investors' profitability.

## ESTRATEGIAS INMOBILIARIAS TRUST (PEI)



Source: PEI. Graph: BRC Ratings – S&P Global

Since PEI's inception, 11 tranches have been issued, as detailed in Table 2. The yield payments for each tranche appear in Table 3.

**Table 2. PEI's Tranche issues**

PEI issues	Tranche I	Tranche II	Tranche III	Tranche IV	Tranche V	Tranche VI	Tranche VII	Tranche VIII	Tranche IX	Tranche X	Tranche XI	Total
Placement Date	2/27/2007	11/22/2007	10/30/2009	3/21/2012	7/19/2013	9/5/2014	12/16/2015	9/21/2016	6/16/2017	12/20/2017	6/21/2019	
Amount Placed (COP millions)	107.605	127.557	204.863	155.129	178.995	207.539	251.867	436.665	603.367	626.479	816.617	3.716.683
Bid (x times)	4,5	11,9	43,6	91,7	95,9	260,4	269,5	6,2	250,6	2,52	1,7	
Number of securities	21.521	23.405	33.311	21.666	22.831	26.040	29.084	48.735	64.188	62.868	77.773	431.422
Security price (COP)	5.000.000	5.450.000	6.150.000	7.160.000	7.840.000	7.970.000	8.660.000	8.960.000	9.400.000	9.901.000	10.500.000	

Source: PEI Asset Management S.A.S.

Table 3. Yield payment per tranche												
Date of issues and distribution of returns	Value of the security (COP)	Returns paid per security (COP)										
		Tranche I	Tranche II	Tranche III	Tranche IV	Tranche V	Tranche VI	Tranche VII	Tranche VIII	Tranche IX	Tranche X	Tranche XI
<b>Feb-27-07 (first tranche issuance)</b>	<b>5,000,000</b>	149,975										
15-Aug-07												
<b>22-Nov-07 (second tranche issuance)</b>	<b>5,450,000</b>											
14-Feb-08		122,492	122,492									
15-Aug-08		235,864	235,864									
13-Feb-09		257,329	257,329									
18-Aug-09		231,935	231,935									
<b>30-Oct-09 (third tranche issuance)</b>	<b>6,150,000</b>											
11-Feb-10		179,010	179,010	179,010								
13-Aug-10		241,515	241,515	241,515								
14-Feb-11		272,448	272,448	272,448								
12-Aug-11		250,794	250,794	250,794								
14-Feb-12		329,485	329,485	329,485								
<b>21-Mar-12 (fourth tranche issuance)</b>	<b>7,160,000</b>											
15-Aug-12		205,480	205,480	205,480	205,480							
14-Feb-13		313,960	313,960	313,960	313,960							
<b>Jul-19-13 (fifth tranche issuance)</b>	<b>7,840,000</b>											
15-Aug-13		213,839	213,839	213,839	213,839	213,839						
17-Feb-14		316,246	316,246	316,246	316,246	316,246						
15-Aug-14		264,023	264,023	264,023	264,023	264,023						
<b>5-Sep-14 (sixth tranche issuance)</b>	<b>7,970,000</b>											
13-Feb-15		300,036	300,036	300,036	300,036	300,036	300,036					
18-Aug-15		252,795	252,795	252,795	252,795	252,795	252,795					
<b>Dec-15-15 (seventh tranche issuance)</b>	<b>8,660,000</b>											
12-Feb-16		331,747	331,747	331,747	331,747	331,747	331,747	331,747				
12-Aug-16		238,997	238,997	238,997	238,997	238,997	238,997	238,997				
<b>9/21/2016 (eighth tranche issuance)</b>	<b>9,184,374</b>											
14-Feb-17		275,629	275,629	275,629	275,629	275,629	275,629	275,629	275,629			
<b>5/16/2017 (ninth tranche issuance)</b>	<b>9,582,616</b>											
15-Aug-17		175,155	175,155	175,155	175,155	175,155	175,155	175,155	175,155	175,155		
<b>12/20/2017 (tenth tranche issue)</b>	<b>9,901,508</b>											
1-Feb-18		272,151	272,151	272,151	272,151	272,151	272,151	272,151	272,151	272,151	272,151	
1-Aug-18		199,612	199,612	199,612	199,612	199,612	199,612	199,612	199,612	199,612	199,612	
<b>31-Dec-18</b>	<b>10,309,091</b>											
14-Feb-19		263,533	263,533	263,533	263,533	263,533	263,533	263,533	263,533	263,533	263,533	
<b>5/21/2019 (eleventh tranche issuance)</b>	<b>10,441,040</b>											
15-Aug-19		288,753	288,753	288,753	288,753	288,753	288,753	288,753	288,753	288,753	288,753	288,753
<b>31-Dec-19</b>	<b>10,734,254</b>											
14-Feb-20		334,963	334,963	334,963	334,963	334,963	334,963	334,963	334,963	334,963	334,963	334,963
18-Aug-20		150,532	150,532	150,532	150,532	150,532	150,532	150,532	150,532	150,532	150,532	150,532
17-Sep-20		29,193	29,193	29,193	29,193	29,193	29,193	29,193	29,193	29,193	29,193	29,193
<b>31-Dec-20</b>	<b>10,827,968</b>											
30-Mar-21		50,283	50,283	50,283	50,283	50,283	50,283	50,283	50,283	50,283	50,283	50,283
30-Jun-21		53,493	53,493	53,493	53,493	53,493	53,493	53,493	53,493	53,493	53,493	53,493
30-Sep-21		65,056	65,056	65,056	65,056	65,056	65,056	65,056	65,056	65,056	65,056	65,056
31-Dec-21		63,752	63,752	63,752	63,752	63,752	63,752	63,752	63,752	63,752	63,752	63,752
<b>31-Dec-21</b>	<b>10,667,215</b>											
<b>TOTAL</b>		<b>6,930,075</b>	<b>6,780,100</b>	<b>5,932,480</b>	<b>4,659,228</b>	<b>4,139,788</b>	<b>3,345,680</b>	<b>2,792,849</b>	<b>2,222,105</b>	<b>1,946,476</b>	<b>1,771,321</b>	<b>1,036,025</b>

Source: PEI, prepared by BRC Ratings – S&P Global.

## IV. CONTINGENCIES

According to rated party's information, as of December 2021 PEI was not the subject of any legal proceedings that may affect its equity position. Likewise, PEI's management agent, Fiduciaria Corficolombiana, was not the subject of any legal proceedings before the Financial Superintendency of Colombia [*Superintendencia Financiera de Colombia*] and the Securities Market Self-Regulator [*Autorregulador del Mercado de Valores*] (SMS).

*The technical visit made for purposes of the rating process was informed with sufficient time in advance to ensure the issuer's availability and the relevant information was timely delivered times in accordance with BRC Ratings - S&P Global S.A. Sociedad Calificadora de Valores's requirements.*

*BRC Ratings – S&P Global S.A. Sociedad Calificadora de Valores does not perform auditing functions; therefore, the entity's management is fully responsible for the integrity and truthfulness of any information provided and used to prepare this report. BRC Ratings – S&P Global S.A. Sociedad Calificadora de Valores also reviewed the public information available and compared it with the information provided by the issuer.*

*If you have any concerns in connection with the ratios included herein, please refer to the glossary at [www.brc.com.co](http://www.brc.com.co)*

*To view our rating definitions, please visit [www.brc.com.co](http://www.brc.com.co) or [click here](#).*

*The financial information in this document is based on the entity's investment portfolios reports as of December 2021 and other information delivered by the entity's manager.*

## **V. MEMBERS OF THE TECHNICAL COMMITTEE**

The resumes of the Technical Rating Committee's members are available at our website [www.brc.com.co](http://www.brc.com.co)

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*A risk rating issued by BRC Ratings – S&P Global S.A. Sociedad Calificadora de Valores is a technical opinion not intended at any time to constitute a recommendation for the purchase, sale, or continuation of any particular investment and/or a security. It neither implies a guarantee of payment of the security, but rather an assessment of the likelihood that its capital and returns will be paid in a timely fashion. The information in this publication was obtained from sources that we believe are reliable and accurate; therefore, we assume no responsibility for any errors, omissions, or results from the use thereof.*

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