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Colombia

Rating report

ISSUE AND PLACEMENT PROGRAM OF ORDINARY BONDS, GREEN BONDS AND COMMERCIAL PAPERS UP TO COP1.5 TRILLION OF PATRIMONIO ESTRATEGIAS INMOBILIARIAS

*This English version is provided on request and reflects the translation from the original one provided only in Spanish by BRC Ratings – S&P Global S.A. Sociedad Calificadora de Valores on April 12, 2024, under the title "*Programa de emisión y colocación de bonos ordinarios, bonos verdes y papeles comerciales hasta por la suma de COP1.5 billones del Patrimonio Autónomo de Estrategias Inmobiliarias*". In case of any discrepancy between this English version and the original in Spanish, the Spanish version shall apply.*

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ISSUE AND PLACEMENT PROGRAM OF ORDINARY BONDS, GREEN BONDS AND COMMERCIAL PAPERS UP TO COP1.5 TRILLION OF PATRIMONIO ESTRATEGIAS INMOBILIARIAS

BOND CHARACTERISTICS	
Securities:	Ordinary Bonds
Issuer:	Patrimonio Estrategias Inmobiliarias (PEI)
Total limit:	COP1.5 trillion Amount issued: COP1 trillion Amount to be issued: COP500,000 million
FIRST ISSUANCE	
Amount issued	Total: 500,000 million C3 Tranche: COP116,005 million C10 Tranche: COP209,426 million C25 Tranche: COP174,569 million
Redemption deadlines	C3: 3 years C10: 10 years C25: 25 years
Issue and placement date:	August 28, 2018
BONDS CHARACTERISTICS	Ordinary bonds The returns will be paid in each quarter in arrears.
Interest payment period	C3 Tranche: CPI+2.79% C10 Tranche: CPI+3.96% C25 Tranche: CPI+4.3%
SECOND ISSUANCE	
Amount issued	COP500,000 million A5 Tranche: COP122,000 million A10 Tranche:COP226,000 million C25 Tranche:COP152,000 million
Issue and placement date:	November 7, 2019
BONDS CHARACTERISTICS	Ordinary Bonds
Redemption schedules:	A5: 5 years A10: 10 years C25: 25 years
Frequency of interest payment:	The returns will be paid in each quarter in arrears.

	A5 Tranche: 6.5% AER A10 Tranche: 7.28% AER C25 Tranche: CPI + 3.79% AER
Guarantees and priority:	Payments for capital and interest will be met with the cash flows generated by PEI. The bonds are not backed by any real guarantee; therefore, they are unsecured obligations of the issuer.
Legal representative of the holders:	Itaú Asset Management
Legal adviser:	Brigard & Urrutia Abogados SAS
Custodian:	Depósito Centralizado de Valores S.A.

THIRD ISSUANCE	
Amount to issue	COP500,000 million
Issue and placement date:	To be defined
BONDS CHARACTERISTICS	Ordinary Bonds or commercial papers
Redemption schedules:	To be defined
Frequency of interest payment:	To be defined
Guarantees and priority:	Payments for capital and interest will be met with the cash flows generated by PEI. The bonds are not backed by any real guarantee; therefore, they are unsecured obligations of the issuer.
Legal representative of the holders:	Itaú Asset Management
Legal adviser:	Brigard & Urrutia Abogados SAS
Custodian:	Depósito Centralizado de Valores S.A.

I. OVERVIEW

- We affirmed the AA+ and BRC 1+ ratings of the Program for the issuance and placement of ordinary bonds, green bonds and commercial papers up to the sum of COP1.5 billion of the Patrimonio Autónomo Estrategias Inmobiliarias. We withdrew the negative outlook on the long-term debt rating.
- The novations made on maturities in 2023 and early 2024 improve the amortization profile from a liquidity perspective, which supports the withdrawal of the negative outlook. However, we will monitor future debt reprofiling processes and their impact on the vehicle's credit profile.
- The leverage level (measured as net debt to EBITDA) was 6.2x (times) at the end of 2023, which is lower than 7.2x observed in 2022. Our base-case scenario shows an improvement in that metric towards 4.7x in 2026, if favorable dynamics in the generation of EBITDA and continuity of a prudent policy in terms of debt are maintained. We are not considering within this calculation the possibility of divestments or new issues of securities that are, again, within the alternatives that could be used in the next three years.
- The affirmation of the bond rating considers the strong business position maintained by the issuing vehicle, as a result of the implementation of a clear and consistent strategy.

II. RATING ACTION:

Bogotá, April 12, 2024.- The Technical Committee of BRC Ratings – S&P Global SA Sociedad Calificadora de Valores confirmed the AA+ long-term debt rating and BRC 1+ short-term debt rating of the Program for the issuance and placement of ordinary bonds, green bonds and commercial papers up to the sum of COP1.5 billion from the Patrimonio Autónomo de Estrategias Inmobiliarias (hereinafter PEI). In addition, it withdrew the negative outlook on the long-term debt rating.

III. RATING RATIONALE:

The rating affirmation considers the strong business position of the issuer, Patrimonio Autónomo de Estrategias Inmobiliarias, which is reflected in the size of its portfolio, the quality of its assets and its adequate levels of geographic and tenant's diversification. This competitive position has translated into a sustained increase in its income and EBITDA and provided resilience to the vehicle in adverse macroeconomic scenarios. In addition, it has shown efficient access to the banking sector through novations that have led to more adequate liquidity scenarios compared to the last review.

In addition to the above, changes in the real estate manager's compensation structure benefited the profitability of the vehicle. The EBITDA margin rose to 70.9% at the end of 2023 from 65.5% a year earlier. We also added the operational results of the vehicle reflected in lower vacancy rates and increased income generation, which supports the withdrawal of the negative outlook.

Since the last review, PEI carried out novation processes of its current obligations under favorable conditions in rates and terms. This resulted in a more comfortable liquidity profile compared to a year earlier. We positively consider access to the banking sector and different financing alternatives, which is incorporated into the current rating. However, we will monitor future debt reprofiling processes and their impact on the vehicle's credit profile.

The leverage level (measured as net debt / EBITDA) at the end of 2023 was 6.2x, lower than our projections (7.5x) and the metric of a year earlier (7.2x). The main factor that influenced this behavior was the growth of EBITDA by 24.9% year over year, which generated COP498,888 million from COP399,318 million in 2022. The above is a result of the adjustment in rental fees incorporating the inflation levels from recent years. In addition, the increase in variable income as a result of the good dynamics in the businesses and a better asset placement performance that translated into physical vacancy levels of 4.3% and economic vacancy levels of 6.0%, figures lower than the average observed in the last three years. .

Under our current projected scenario, between 2024 and 2026 PEI's EBITDA would grow around 6% annually. This, without considering relevant acquisitions or divestitures in the portfolio, and maintaining physical vacancy rates around the vehicle's long-term goal (5%).

Therefore, we estimate a maximum leverage of 5.8x in 2024, incorporating the new limitations to the request for new debt for asset acquisitions that was approved at the Extraordinary Meeting of Investors in December 2023, and the loan to value (LTV) in the long term. We project that the metric would maintain a downward trend until it is close to 5x, which remains in line with the rating. The projection considers the EBITDA generation of the base-case scenario and a debt level of around COP3.2 trillion. Given the macroeconomic volatility, the continuity of the prudent debt policy and the control of costs and expenses by the vehicle will be relevant.

As in previous reviews, our base-case scenario does not include any type of issuance of participatory securities (rated AAA), given the current adverse economic scenario and the manager's decision not to carry out the issuance until market conditions are favorable.

IV. LIQUIDITY

In order to estimate the vehicle's liquidity position, we conducted a sources and uses exercise, the results of which show an adjusted liquidity ratio (1x), given the cost of debt. These results also show the dependence of the vehicle on debt negotiations, especially maturities in 2025, which limits the rating. Although we identify a liquidity risk, we consider that there are some factors that mitigate it:

- The returns it pays to investors depend on the vehicle meeting its other obligations. This condition gives it flexibility to use these resources on other matters that it considers a priority.
- The vehicle began a successful divestment strategy in 2023, the resources of which that can be used for: (i) distribution to investors, (ii) reinvestment in real estate assets that meet the investment policy guidelines and (iii) the payment of its financial obligations. We will monitor the impact that the decision to use these resources has on the maturity profile of the vehicle, and the effect on our liquidity exercises.
- PEI has long experience in the issuance of participatory securities and investors are highly interested in this type of assets.
- Although potential PEI investments eventually have a binding document, the vehicle has the flexibility to postpone investments as long as the project does not meet the specified conditions, suspension clauses, and, if applicable, advances that are linked to the progress of building works, among others.
- PEI has maintained good relations with the financial system, the capital market and has approved quotas of COP1.3 billion, which it could use if necessary.

V. FACTORS TO MODIFY THE RATING:

What can lead us to upgrade the rating

- Sustained reductions in net debt/EBITDA ratioto 4x.
- Sustainability of liquidity indicators above 1.3x for the next 2 years.
- A consolidated asset divestment strategy, with clear use of resources in each case.

What could lead us to downgrade the rating

- Maintaining a net debt/EBITDA ratio greater than 8x over the next two years.
- The continued deterioration in the degree of diversification by type of asset and tenants of its portfolio.
- Changes in the business profile in terms of the composition of stabilized assets.
- Deviations in debt policies and decisions from our base-case scenario.

VI. THE ISSUER AND ITS ACTIVITY

Patrimonio Estrategias Inmobiliarias - PEI is an investment vehicle that purchases and manages income-generating commercial properties. PEI emulates infrastructure and real estate trusts (REITs), which makes it a profitable alternative for investors who want to participate in a diversified real estate portfolio.

PEI remains the largest real estate fund in the country. At the end of 2023, the vehicle had COP9.3 trillion of assets under management (AUM), 150 assets and a leasable area of 1,146,696 square meters and a diversified portfolio by geographic location and tenants. For the coming years we foresee that these conditions, added to the quality of its assets and the extensive experience of the manager would allow it to maintain its competitive position.

VII. INDUSTRY RISKS

The GDP of the buildings sector fell 1.0% in the last quarter of the year, explained by the residential segment, partially offset by the non-residential segment. The sector's main metrics are still negative. Building licenses decreased in the logistics (31.7%), commerce (21.0%) and offices (9.8%) categories. Starts and sales remain below the levels observed in the first half of 2022. However, construction costs appear to have corrected since February 2023 when they peaked; nevertheless, both housing starts and the viability of the projects is still severely hit.

Vacancy rates have decreased, gradually returning to pre-pandemic levels in commercial and corporate properties, with a slight improvement in the logistics segment. For its part, in the corporate segment, sustainable construction and the provision of high-quality facilities have driven the creation of new spaces despite the post-pandemic delays in remote work. Throughout 2023, companies have shown interest in returning to physical workspaces both in hybrid and 100% in-person mode, which in turn translates into a decrease in physical vacancy in the market, going from 10.6% in 2022 to 8.8% in 2023.

On the other hand, the market for logistics and industrial spaces maintains its greatest concentration in main cities such as Bogota, Medellin, Cali and Barranquilla. However, during 2023 there was a trend to locate logistics spaces and industrial developments in secondary cities such as Pereira, Bucaramanga, and Ibague, among others. This trend occurs due to the low availability of warehouses in main cities and the high cost of developing custom-made constructions.

Finally,despite an adverse macroeconomic scenario, the commerce sector had stable behavior throughout the year. Physical vacancy in cities such as Barranquilla, Cali, Medellín and Bogotá has registered lower figures than in 2019, accompanied by an increase in demand for multinational brands in niches such as sports and household goods, which are seeking expansion and consolidation after the contraction caused by the pandemic. On the supply side, shopping center construction has decreased dramatically; 2023 will be the fourth consecutive year in which two shopping centers are built per year, a figure that is well below the ratio of 8.9 since 1999.

VIII. ADDITIONAL INFORMATION:

Type of rating	Long-term and short-term debt
Minute number	2523
Date of the Committee	April 12, 2024
Type of Review	Periodic review
Issuer	Patrimonio Estrategias Inmobiliarias
Members of the Committee	María Carolina Barón
	María Soledad Mosquera
	Andrés Marthá

Rating history
Periodic review Apr./23: AA+ Negative Outlook / BRC 1+
Periodic review Apr./22: AA+ / BRC 1+
Original rating assignment Jun./15: AA+

The technical visit for the rating process was carried out with sufficient time due to the availability of the issuer and the delivery of the information was fulfilled in the foreseen times and in accordance with the requirements of BRC Ratings – S&P Global S.A. SCV.

BRC Ratings – S&P Global S.A. SCV does not perform auditing; therefore, the entity's management takes full responsibility for the integrity and veracity of all the information provided and that has served as the basis for the preparation of this report. On the other hand, BRC Ratings – S&P Global S.A. SCV reviewed the available public information and compared it with the information provided by the entity.

The financial information included in this report is based on the audited financial statements of the last three years.

If you have any question regarding the indicators included in this document, you can consult the glossary at www.brc.com.co

To see the definitions of our ratings, visit www.brc.com.co or click here.

IX. MEMBERS OF THE TECHNICAL COMMITTEE:

The resumes of the members of the Technical Rating Committee are available on our website www.brc.com.co

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