

Quarterly business update for three months to 30 June 2020

August 2020

Marian Herman, CEO of HB Reavis, comments on current situation

“The global pandemic brought many unexpected situations into the business and we’ll be seeing the true impact of these over the long term. But what we can’t deny is the notion that it will be significant. We do not know exactly what the new reality of how various professions work will look like and what changes in the office occupational market (i.e. demand for the workspace), or the investment or financing markets (i.e. demand from investors and willingness of banks to finance) we will see in the long term. However, we’re a stable business and my overall priority is to seek new opportunities in the changed environment that COVID-19 outbreak has brought. The focus on the needs of our clients, particularly on health and safety of the working environment and well-being of the users has a paramount importance today. Having seen these trends a while ago we introduced new platforms including Symbiosy and Origameo which are now well positioned to take advantage of this new paradigm that has been accelerated by this pandemic.

Turning to our balance sheet strength, HB Reavis is well-positioned to face the current crisis given our conservative leverage (our Total Assets far exceed Total Liabilities and Company Equity amounts to €1.7bn) and current liquidity of €185 million cash on the balance sheet as at end of second quarter 2020. We do not have any significant debt maturities for the remaining of 2020 and all projects under construction have a committed bank financing in place, except one which is in advanced stage of negotiations. This leads me to conclude that our company has enough assets and equity in order to weather even a substantial market recession and potential crisis. We will be very conservative with using cash in the short-term and are not actively looking for new acquisitions at this time but remain monitoring the market opportunities. New construction starts will be carefully evaluated on case by case basis. We have taken a tough decision to reduce our workforce by c. 15% to better fit current pipeline of 7 projects under construction versus 11 projects at year end 2019. Nobody has a crystal ball to estimate of when this pandemic will end and tell what the new post-COVID normal will look like, but we are making all our efforts to ensure that HB Reavis will emerge stronger from this crisis.”

Acquisitions

No acquisitions were made in this period.

Leasing update

The leasing performance in the second quarter reflects the general slowdown on the leasing market in which tenants (re)consider the size and arrangement of their workplace needs, postpone their leasing decisions and wait for further development of the Covid-19 situation. Despite the adverse circumstances, our leasing team has signed 8.1k sq. m. of GLA with a passing rent of €1.8 million, primarily in the projects Agora Tower, in Budapest and Varso 2, in Warsaw. One of the highlights is signing of B+N Referencia in Agora Tower for a space of over 4,000 sq. m.

Completions and developments progress

There are 7 projects with over 346.2 thousand sq. m of GLA currently under construction, many of which have been progressing well during the last quarter, taking noticeable shapes already. These include projects across five countries, namely:

- Bloom Clerkenwell in London, UK
- DSTRCT Berlin, Germany
- Varso Place (Varso Tower) & Forest (I and II) in Warsaw, Poland
- Nivy Station in Bratislava, Slovakia
- Agora Hub in Budapest, Hungary

During the quarter, which was severely impacted by Covid-19 pandemic, we continued permitting and design works on all of our projects. The partial or complete lock-down in cities where we are in process of development have caused delays on the delivery of the projects, particularly on Varso Tower which has been postponed to 1Q 2022, Nivy Station which was postponed to 3Q 2021, and Bloom which has been postponed to 2Q 2021. Despite the difficult situation, we have reached practical completion on two of our projects – Agora Tower and Varso 2 and are few weeks away from completing Agora Hub. Together with Varso 1 and Nivy Tower, we have delivered 143.2k sq. m of GLA during the first six months of the year.

Agora Tower, Budapest

Agora Tower is the first building in our Agora development to reach practical completion. The building provides 36.5k sq. m of GLA to its tenants and already accommodates Raiffeisen on floor area of almost 20k sq. m. Located in the middle of the largest Budapest office district, Agora Tower is set to receive BREEAM Excellent and Well Platinum certificates, which further underlines company's aim to build green, energy efficient landmarks, centred around well-being of people.

Varso 2, Warsaw

Project Varso 2, a second building of the Varso place complex, has reached practical completion in May 2020. The building offers 44.2k sq. m. of leasable area in location which benefits from great transport connectivity and proximity to the core city center. These factors, alongside the BREEAM and Well Core & Shell certificates are very attractive to prospective tenants, and as a result, the building is already occupied at over 90% of its GLA.

Financing

During the second quarter of 2020, HB Reavis has drawn down a total of €124.8 million of external debt financing, primarily linked to properties currently under construction. The overall process has not been impacted by Covid pandemic, as all committed construction loans were continuously drawn down without any issues. At the end of the quarter, the group had €882.5 million of bank financing (excluding €3.0 million assigned to Joint Ventures), along with €344.4 million of bond financing outstanding. As of the end of the quarter, the Group had €643.0 million of committed bank financing to be drawn down, mainly against future capital expenditures on projects Varso Place, Agora, Nivy Station, DSTRCT and Forest.

Divestments

20 Farringdon Street, London

At the beginning of June, the Group finalized the divestment of 20 Farringdon Street to hands of private investor. Project 20 Farringdon is our latest completed development in London, offers 7.9k sq. m of GLA and accommodates our co-working platform HubHub as well as anchor tenants such as The Berkeley Partnership or TMF Group. The sale underlies our strong divesting capabilities as it was the first office transaction in London post Covid lockdown.

WaaS update

Symbiosy

Our tech and sensory platform Symbiosy is set to transform BP's office in Agora Hub with sensors that will monitor the environment, provide insights into how different teams interact, and how the overall space is used. Over 2000 sensors will help to monitor temperature, humidity and CO2 levels alongside the general occupancy in the office – metric critical in the Covid recovery period. Installations are currently being performed to prepare the space scheduled to open in September 2020 for more than 2,000 employees.

Symbiosy, utilizing smart technology, has launched product package which will help companies to return back to their office safe and healthy. Using advanced video analytics, we are able to provide real-time occupancy and density monitoring which enables companies to ensure optimal social distancing. Secondly, in order to ensure high quality level of the internal environment Symbiosy offers monitoring of CO2 levels, temperature, and humidity, all using environmental sensors.

Origameo

Offices of Panalpina, an international logistics company based in Warsaw, which were consulted, designed, and fitted by our workspace consultancy team Origameo, have received 3rd highest Lmi (Leesman Index) score. The index is a standardized workplace experience evaluation tool which helps to assess employees' perceived satisfaction and productivity among others.

HB Reavis portfolio

Income producing portfolio

As of the end of the last quarter, the Group held a portfolio of 9 income producing office properties with a total of 225.2 thousand sq. m across four countries with passing rent of €42.6 million. The portfolio includes the following projects:

- Agora Tower in Budapest, Hungary
- Postepu 14, Varso 1, Varso 2 in Warsaw, Poland
- Nivy Tower, Apollo BC II, in Bratislava, Slovakia
- Non-core assets (Kesmark in Budapest, Hungary and Centrum Bottova, and H Business Centrum (JV) in Bratislava, Slovakia)

The overall market value of the portfolio totaled up to €0.9 billion as of 31st December 2019, while the weighted average occupancy across the portfolio was 82% at the end of the last business quarter.

Projects under construction

Projects currently in the phase of construction (or demolition) account for 346.2 thousand sq. m of future GLA and estimated future gross development value of around €2.0 billion, all spread over five capital cities:

- Bloom Clerkenwell in London, UK
- DSTRCT Berlin, Germany
- Varso Tower & Forest (I and II) in Warsaw, Poland
- Nivy Station in Bratislava, Slovakia
- Agora Hub in Budapest, Hungary

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