Financial results of 2022 and Quarterly business update for three months to 30th June 2023

Peter Pecník, Group CFO, comments on the financial results for the year ended on 31 December 2022:

Year 2022 will be remembered for sudden and significant interest rate hikes implemented by central banks aimed to curb high inflation and stabilize economies. The commercial real estate sector endured the foremost impact of these interest rate surges. Higher borrowing costs made it more expensive for businesses to secure debt financing for property acquisitions and development, leading to a significant slowdown in the volume of commercial real estate transactions, putting pressure on yield expansion and thus property prices.

The financial results for the year ended 31 December 2022 are indicative of these macroeconomic challenges. We have recognized revaluation loss on properties and impairment loss on inventories (residential projects) in total amount of €143.1 million. Thanks to our hedging strategy, interest expenses rose only by one third compared to prior year, reaching almost €80 million. Mark to market revaluation of hedging instruments totalled a gain of €40.8 million. With net operating income from investment properties reached €78.8 million, loss for the period was at the level of €91.1 million.

Our balance sheet has shrunk to half due to already announced strategic split of HB Reavis group (read more here). As a result of the reorganization, significant related party receivables were recognized from the sale of HB Reavis Investments Holding S.A, and related parties loans.

Commercial real estate downward repricing has had a negative impact on our debt leverage. At the end of 2022, gross debt leverage was at 50.2% (below 55% covenant level) and net debt leverage at 46.8% (above internal optimal level). Our aim in 2023 is to decrease debt leverage with proceeds from the divestments of our non-core land bank, whilst streamlining our business activities and adjusting our organisation to the actual business needs in this challenging environment.

Quarterly business update of HB Reavis Holding S.A for three months to 30th June 2023

Completions and developments progress

Worship project in London, UK is currently the sole project under construction where we have the debt funding in place until the practical completion. The construction progress on the site continues without any interruptions with the aim to reach practical completion in 2Q 2024.

We are also conducting development activities related to the fit-out work of recently completed projects and their leased space, some of which are part of the separated investment portfolio.

Leasing update

We have leased almost 3 thousand sq m of GLA (including leases signed on behalf of HB Reavis CE REIF fund) during the second quarter of 2023. Overall, we have signed almost 9 thousand sq m of GLA (including leases signed on behalf of HB Reavis CE REIF fund) in the first half of 2023 with annual passing rent €5.1 million.

ESG

We have been working on reduction of our environmental impact and supporting our tenants as they undertake their own decarbonisation journeys by committing to science-based decarbonisation targets, which have been recently validated by Science Based Targets initiative (SBTi). This means they recognise our targets to be consistent with the Paris Agreement to minimise global warming, and the EU ambition for Europe to become the first climate-neutral continent by 2050.

Divestments

We have successfully completed divestment of almost 28 thousand sq m of land plots in Bratislava's new business district Nivy to Penta Real Estate and used proceeds to lower our corporate debt leverage. Negotiations for further non-core land plots in non-core markets are ongoing.

Financing

In line with our strategy to deleverage and fortify our balance sheet, we have managed to repay €38.5 million of corporate loans with proceeds from non-core land plot divestments. For our projects under construction(Worship in London) and recently completed project (Apollo Nivy in Bratislava), we have drawn down €23.3 million.

At the end of the quarter, the Group had €642.5 million of bank financing along with €344.8 million of bond financing outstanding and €81.8 million of committed bank financing to be drawn down, mainly against future capital expenditures on projects Apollo Nivy and Worship.

Awards

We have been the second most valuable office developer brand in Europe and the most valuable office developer brand in Central and Eastern Europe. The award has been announced at the Real Estate Brand Award 2023 Gala, organised by the European Real Estate Brand Institute in Berlin. This is the third year in a row that we've been recognised as one of the most valuable European real estate brands.

For press release about the awards click here.

Forward-Looking Statements

Certain statements contained in this release are "forward-looking", based on current view on our markets, activities and prospects and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. In addition, we, through our management, from time to time, make forward-looking public statements concerning our expected future operations and performance and other developments. All forward-looking statements included in this release are made only as of the date hereof and no representation, assurance, guarantee or warranty is given in relation to them and HB Reavis assumes no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

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