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Tin Títulos Inmobiliarios

TIN H1-2023 Earnings Conference Call Presentation

Question

1. What are the expectations for Dividend Yield for the year 2023 considering the high interest rates and inflationary situation?

Answer

The 2023 budget approved by the advisory committee assumed a cost of debt of 16.5% for renewals of TIN Overall Funds. Considering this cost of debt, operating income, operating expenses and administrative expenses of the vehicle, we have a budgeted average Dividend Yield of 3.2% for the year. As of June 2023, the average Dividend Yield for the semester is 3.8% and the projected average Dividend Yield for the year is in the range of 4.00 to 4.10%.

The excellent debt management (mentioning the 2023 strategy of migrating loans from fixed to variable rates, considering the downward projections of IBR as of October 2023) and the divestment transactions we have closed, which have allowed us to make capital loans that reduce debt principal, have allowed us to increase the distribution of returns to our investors.

Question

2. With regard to the sale of the asset in Cartagena, was it above or below book value?

Answer

This investment was made above book value. We have always made sure that our divestments in the vehicle are above book value in order to generate good returns for our investors. In this case, we had an offer for COP 6,300 million; in book value we are above COP 6,270 million, and we also had the Davivienda fine that I mentioned in the presentation, which also helped us to improve the return for investors. In addition, when we did the analysis to prepay or pay down capital, we saw that we could have an opportunity to save interest on the loan with the highest interest rate of a little more than COP 500 million, so this divestment was definitely a very good option for our Dividend Yield investors and in terms of returns.

Question

3. What percentage of the contracts are indexed to CPI? Has there been any kind of renegotiation of this increase with lessees?

Answer

100% of the contracts are indexed to the CPI; therefore, they are safeguarded against the high inflation rates we are currently experiencing. With regard to negotiations, there have been several renegotiations. We know that there are lessees in general in the sector that are approaching us to renegotiate contracts; in that sense we have tried, as Carolina mentioned during the presentation, to be allies of our lessees and, in that sense, to be able to offer a helping hand, just as they do for us, for a win-win situation; that is to say, offer a discount where we are not necessarily making the increase at 100% of the CPI but rather 50-60-70 with an extension in the contractual terms.

Question

4. Considering the lack of liquidity in the secondary market, how have you evaluated the possibility of selling real estate assets to repay the debt?

Answer

The sale of assets is one of our options as a prospect to reduce the level of debt, and although we know that it is an alternative, we consider that, given the current situation, divesting could imply a punishment in the price of real estate assets, so we will evaluate divestments individually to achieve the returns that most favor our investors as we have done so far.

Last June, the divestment of a retail space at street level in Cartagena was closed at an undiscounted price. This divestment allowed us to make a payment of principal for nearly COP 6,300 million, benefiting our Dividend Yield and consequently our investors.

Question

5. What is the alignment of interests of TIN administration fee?

Answer

The vehicle's administration fee was modified and approved by the investors at the end of 2022 at an Extraordinary Meeting. The objective was to align interests on 3 fronts: 1) we aimed to migrate from a calculation basis that took the vehicle's equity to the NOI, in order to especially consider the operational aspects and reinforce the importance of maintaining low vacancy, a low portfolio and a very efficient administration of the vehicle. 2) secondly, it considers the actual return of the vehicle by reducing or increasing the administration fee according to results for investors. This way, other non-operational aspects of vehicle administration are considered, such as the debt strategy, which plays an important role in the final return at the current high interest rate environment. 3) Finally, there is a discount if the valuation price of the security moves away from the equity value, since this is also a relevant factor for investors. Therefore, through these 3 aspects we are aligning the interests of the Master Administrator and strategic allies with those of investors.

Question

6. Please provide details of the terms of loans with local and international banks.

Answer

Here it is important to mention that all loans are from local banks, not international banks. At the end of June 2023, we have four loans with national entities, three are in Colombian pesos, and the other is a synthetic loan, that is, a loan taken in US dollars and is hedged for 100% exposure in Colombian pesos. It was important to carry out this type of transactions throughout the semester; this one was carried out in February leading to the savings of 300 basis points compared to the local market offer at that time in terms of rates and, in the end, this resulted in efficiency and a greater return for the vehicle. Therefore, the four loans at the end of the semester have allowed us to manage this debt strategy much more efficiently.

Question

7. What do you expect from the office sector in 2023 due to the economic slowdown?

Answer

Firstly, it is important to provide a general overview of the portfolio in this sector. Our current office assets have a vacancy, but the rest of the portfolio is 100% occupied with very positive contractual conditions, with contracts that have been in force for 5 to 7 years; with regard to the vacancy, we are in a very active sale process, hopefully aiming to relocate it as soon as possible. That said, we see that, as we already mentioned, the vacancy has somehow stagnated; it has neither improved nor deteriorated, and we believe that there will surely be an upturn in office construction going forward, especially in A+ offices. Our investments will not necessarily be in this sector, since we will not focus on this sector in particular. However, we will be very closely monitoring any potential opportunities because, as we know, cash is king right now, and we expect to find good opportunities.

Question

8. Why is it worth promoting in-kind payment changes in the vehicle? Please clarify what you mean by payment in kind. For example, what type of assets would be received?

Answer

Well, payment in kind is a very nice opportunity provided by the prospectus; we have it from the beginning of the vehicle. Right now, we have defined the payment of a percentage of the issue in securities to those selling us the assets, the traders. Our proposal, considering the current situation, and I believe our tool is very nice because in this situation, where high rates go against acquisition, the debt does not favor investors, and since it is not easy to get money, we found that acquisition via payment in kind, that is, payment in securities, we could do this with the opportunities found today in the market. There are currently good opportunities in the market at very good prices that we have to take advantage of, and since we have the restraint of high rates, we found this opportunity. What advantages does it give us? One, we do not affect our investors' dividend yield because we are not adding more interest to the cash flow, we are diversifying the portfolio, which is one of our goals; in the presentation, I showed that we are very close to stabilizing the entire portfolio, so all we need is the lessee limit. We have continued to grow the vehicle and our proposal, which we will present in a future extraordinary meeting, to which we will make a round with each of the investors. We will show all these benefits in order to consolidate and show that they can have the same privilege or benefit of the preemptive right so that they are not diluted and for new investors to also enter. Payment in kind would be made in the third round, which is the usual remainder.

Question

9. What is your projection of the Vacancy indicator for 2023? Have you detected any early return of assets? Has household spending, as you mentioned, declined? Do you think vacancy could start to increase quickly in commercial assets in this situation?

Answer

We have not received any early returns for now. Last year we had some returns as part of the portfolio known as Davivienda. However, we have not had any this year. This year, we are aiming to be much closer to our lessees, as we have already mentioned, because we believe that this is the way not only to avoid some returns, but also to know when they may come and how we can avoid them. With regard to the slowdown in household consumption, we have an established vacancy of 5% structurally in our models. This vacancy has somehow been lower so far. Therefore, we are going to try to keep it lower, but we know that there is obviously the possibility that it will increase, but we know that it will be controlled. We have the tools to control it and, in that context, we expect to keep vacancy in line with expectations.

As for the question regarding our vacancy indicator for 2023 and whether we have detected any early returns, let's say that our contracts are very stringent in terms of exit clauses and we can leave room to maneuver when lessees want to return an asset. They provide us with a sensible time frame to be able to relocate the asset and, therefore, they also have penalties that protect the investor's dividend. However, it is very important to note that this vehicle has a minimum market vacancy of 0.58%. This type of vehicle, in projection and in acquisition, normally includes a vacancy of 5% in the valuation of the assets. We are far from that right now, and that is reflected in the results. Bearing in mind the economic situation and the future return of assets by lessees, we estimate that we could reach a vacancy rate of around 3%, which in any case is still very low compared to the market and the projections based on which a real estate portfolio is evaluated in this type of fund.

Question

10. What type of assets do you have in the pipeline to maintain the fund's return?

Answer

Let's say that with regard to the pipeline today, I think it is important to mention that the assets in the portfolio currently have an adequate return and maintain our value offer to investors. Therefore, any acquisition must be focused on providing a return for the vehicle that is greater than what we have today. We are focusing our efforts on two things. First of all, on assets that can be contributed in kind, as already mentioned, which is one of our strategies going forward. In turn, finding opportunities, because we know that in this economic situation there are good opportunities and bad ones, but there are always opportunities where we believe we will be able to acquire very good assets, probably at very good prices, with a very good return, to the extent that they can be reactivated, and that loans will return to normal rates. That is to say, there are many things tied to the current situation, but we know that this is a moment of opportunity.

Question

11. In relation to asset purchases, when do you plan to reactivate the acquisition process?

Answer

Our goal is obviously to be able to make a third issuance to reduce debt, but since the alternative of payment in kind does not require us to incur any debts, it is one way to acquire real estate assets. However, it gives us the opportunity to take advantage of the good prices being offered. We are still in a constant search; we have a very good pipeline that, later on, we will show you in another round. And we are screening the assets that are going to favor the portfolio the most, that allow us a payment in kind, and provide us with opportunities for prompt payment against issuance. And that is where we could be making many acquisitions.

Question

12. Given that the remaining term of the debt is 3.3 months, how are you handling the negotiation of refinancing rates, given that you have the urgency to comply?

Answer

With regard to the short-term, this has been part of the TIN strategy. Here we want short loans in order to be able to evaluate and modify these debt conditions quickly as the market changes. It is true that the term of the loans is short, 3.3 months, but here it is very important to consider the equity backing the TIN from shareholders and other counterparties in the financial sector. We have very broad lines of credit that give us great peace of mind to be able to have the best conditions at the time of renewing these loans, and this has been the case to the extent that we have many financial counterparties and the backing of our shareholders, since these financing conditions have managed to guarantee that they are the best for investors, and this has also translated into returns. This has allowed us to be very flexible and despite the very short maturities, it has allowed us to transfer the vehicle under the best debt conditions. Andres, I don't know if you want to add anything regarding debt.

We have been mentioned that our strategy for the end of 2021 was to have a 100% fixed-rate debt, given the strong upward trend in interest rates. We currently believe that we are reaching, let's say, the final cycle of this peak in interest rates, so we think that in terms of borrowing cost, it is a good idea to start indexing to the IBR again. So we are starting to implement a strategy of re-indexing this debt to the IBR with the expectation that the IBR will begin to drop at the end of the year in accordance with the rate trend of the Central Bank and the market in general, and we also expect the liquidity situation to begin to improve by the end of the year. This will obviously benefit investors' returns, investors' dividend yield and, at the end of the day, it will also improve our fee due to this variable component.