



Jesús García de Ponga

## “According to the current strategic plan by 2010, EUR 1.5 - 2 billion will be invested in Germany”

INTERVIEW WITH JESÚS GARCÍA DE PONGA, CEO, METROVACESA, S.A.

**Metrovacesa is one of the top property companies in Europe and number one in Spain, with assets valued over EUR 12,000 million. According to the current strategic plan, EUR 1.5 - 2 billion will be invested in Germany. The Real Estate Magazin speaks with CEO Jesús García de Ponga about the real estate crisis in Spain and his plan in the German market.**

**REAL ESTATE MAGAZIN:** In which areas is Metrovacesa active?

**GARCÍA DE PONGA:** The core business of Metrovacesa is to rent, manage, promote and market office buildings, shopping centres and hotels in Spain as well as in France, Germany and the United Kingdom. The property business represents 75% of Metrovacesa's Gross Asset Value (GAV). Residential and land business accounts for only 25%. By country, Spain makes up 69% of Metrovacesa's Gross Asset Value, the United Kingdom 10%, France 18% and Germany 3%. Our aim is to increase the property business up to 90% by 2010. The 45% of total GAV will be located in the main European economies such as the UK, Germany and France.

**REAL ESTATE MAGAZIN:** What is the stockholder structure of your company like?

**GARCÍA DE PONGA:** The Sanahuja family owns 80.62% of Metrovacesa. ING Group owns 6.70% and Citigroup holds a 3.01% stake. All of them include direct and indirect holdings. The Sanahuja family will reduce their capital stock in order to increase stock liquidity. Metrovacesa plans to incorporate new institutional investors in the stock capital of the company. Mr Román Sanahuja, Chairman of Metrovacesa, will reduce his capital stock.

**REAL ESTATE MAGAZIN:** How have you been affected by the real estate crisis in Spain?

**GARCÍA DE PONGA:** The decrease of the real estate market in Spain

only partially affects our estate business: namely residential and land business. Only 25% of Metrovacesa's business is residential and land business. However, property companies are less affected by the decrease of the housing market, largely triggered by the increase of the Euribor and the international credit crunch that makes it difficult to obtain mortgages. On the other hand, in the first half of 2008 our GAV almost remained the same. Furthermore, our rents have grown more than inflation rates. Like-for-like rental revenues, corresponding to assets that have been in our portfolio since 1 January 2007, recorded an increase of 6.1%.

**REAL ESTATE MAGAZIN:** As part of the “Phoenix Plan”, your goal is to increase liquidity, cut back debt and optimize your portfolio by 2010. Over the past several months, you have already sold two shopping centres to Unibail-Rodamco, an office block in Madrid, and a shareholding in a company active in the student dormitory business. What other specific measures do you have planned?

**GARCÍA DE PONGA:** Our priority is to increase liquidity, cut back debt and optimise the portfolio therefore we have set up several measures. Metrovacesa is reinforcing the divestment of non-strategic assets and land in order to improve its portfolio. We are sharpening our focus on the office and shopping centre markets. Further in EU 4, we are focusing on the development and management of our pipeline projects, as well as share projects with partners.

**REAL ESTATE MAGAZIN:** What will your portfolio look like in the future – in terms of sector and regions?

**GARCÍA DE PONGA:** Our target until 2010 is to increase the property business up to 90% from 75% today. Moreover, 45% of total GAV will be located in the main European economies such as the UK, Germany and France.

**REAL ESTATE MAGAZIN:** What will your balance sheet liabilities look like in the future? Your LTV ratio will still hover fairly constantly around the 52% mark, right?

**GARCÍA DE PONGA:** In June, net financial debt equalled EUR 7,141.8 million (+2.8%) and LTV (recourse) was at 53.0%. We would like to reduce our LTV down to 52% in 2010. Our priority is generating liquidity. Our covenant limit stands at 55%.

**REAL ESTATE MAGAZIN:** The bulk of your portfolio is in Spain and France, with a few real estate holdings in the UK. So far, Germany accounts for only 3% of your portfolio (i.e. the Access Tower in Frankfurt-Niederrad and several office blocks in Düsseldorf); however, you would like to increase your assets in Germany and the UK from EUR 1.6 to 4.1 billion by 2010. How much of that will go to Germany?

**GARCÍA DE PONGA:** According to the current strategic plan, EUR 1.5 - 2 billion will be invested in Germany. At this time – as already announced during first half results – we are revising our Plan Phoenix in order to adjust it to the new market conditions. We remain confident that Germany is a great market with big possibilities.

**REAL ESTATE MAGAZIN:** What properties are you focusing on as part of this growth?

**GARCÍA DE PONGA:** We are focusing on core properties in the major German business centres/cities (Hamburg, Berlin, Düsseldorf, Frankfurt, Stuttgart, Munich): office buildings in central locations, good building standards and excellent tenant structures are our primary focus. We are also interested in retail, hotels and logistics. Metrovacesa's strategy concentrates on prime assets, prime locations and assets over a size of EUR 75 million.

**REAL ESTATE MAGAZIN:** In your opinion, what makes Germany a good place to invest?

**GARCÍA DE PONGA:** We believe that after a reduced German GDP growth in 2008 and 2009, the German GDP will be back on expansion course from 2010 onwards. The decrease of the unemployment rate stabilizes the German office market.

**REAL ESTATE MAGAZIN:** What kind of REIT related activities are you planning?

**GARCÍA DE PONGA:** The REIT system does not exist in Spain. If you analyse the biggest eight real estate investment markets worldwide (these eight countries concentrate 78% of the total global market), the only one which does not have a REIT system is Spain. We would certainly appreciate a Spanish REIT. We are following the REIT developments in Germany very closely. Moreover, we examine real estate platforms which are designed for REITs. The current capital market conditions are not favourable for a REIT, but this may change.



**REAL ESTATE MAGAZIN:** By 2010, you would like to raise your earning per share to EUR 11.67 (2008: EUR 7.84, 2007: 12.45), your dividends to EUR 3.87 (2008: EUR 3.51, 2007: EUR 2.01), and your NNAV (NAV after latent taxes) to EUR 82.72 (2008: 70.80). Isn't that going out on a limb given the current state of the capital markets?

**GARCÍA DE PONGA:** Metrovacesa is currently assessing the targets reported in the Phoenix Plan, in light of the significant changes seen on both the Spanish property market and the financial markets in general in the last few months. These changes place the company in a very different environment than that initially anticipated in Plan Phoenix. Therefore, Metrovacesa is revising the set objectives, intending to updating the main guidelines and raising visibility on the real situation of the property market and the company's strategic targets.

**REAL ESTATE MAGAZIN:** When do you think we will start hearing positive news from the Spanish real estate market again?

**GARCÍA DE PONGA:** Real estate in Spain will recover in line with the recovery of European economies as well as the recovery of the housing markets. In the first half of 2009, we expect foreign investors to enter the Spanish market again. Regarding the office market, the strong economic growth period the Spanish economy has seen in the last years boosted the sector. Office rents in Madrid as well as in Barcelona have increased in the past few years. Demand will remain, however not on the high levels seen in the last three years, due to the economic slowdown. Still, prime areas will not be affected. Tenants prefer to pay high-level prices for offices which are situated in prime locations and are of high quality. For example in Madrid, take-up has reached high levels in prime locations. New areas (located in the outskirts) will consolidate in the long-term as new business areas. Regarding the retail sector, if you have a look at the Spanish market over the past years, you can see Spain as an interesting market for many international chains. Despite a less favourable economic outlook, new foreign retail chains keep on showing a strong interest in the Spanish retail market, particularly in the high streets or in shopping centres. This despite the fact, that the commercialization of projects has become more difficult due to the economic slowdown over the past few months.

*The interview was conducted by Christian Schiffmacher.*