



CPI Property Group

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Press Release - Corporate News

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CPI PROPERTY GROUP – Comments on Recent Events

CPI PROPERTY GROUP (“**CPIPG**” or the “**Group**”), a leading European landlord, has prepared the following update for our stakeholders.

Over the past five years, CPIPG has been resilient through COVID-19, unwarranted concerns about the CEE region following the invasion of Ukraine, higher interest rates, negative sentiment around the real estate sector, baseless litigation, and increasingly ridiculous attacks from a short seller.

The Group understands that these events have been challenging for rating agencies, bondholders, and banks to absorb. CPIPG has been transparent, accessible, and open about areas where we can and will improve. We have also highlighted our many accomplishments and the quality of our real estate portfolio.

CPIPG remains focused on delivering for our stakeholders. The Group cares deeply about our reputation.

Unexpected Downgrade by S&P

In a surprise move today, S&P Global Ratings (“S&P”) downgraded CPIPG’s rating from BBB- to BB+ with a negative outlook. CPIPG has always maintained an active dialogue with our rating agencies. In many cases, we speak weekly. The Group had no indication a downgrade was coming; indeed, S&P was made aware of our recent bond issuance plans well in advance and assigned a BBB- rating to the transaction.

S&P’s decision is disappointing to CPIPG. At year-end 2023, our credit metrics were within S&P’s rating guidance. Our business plans clearly indicate that the Group will remain within the thresholds for an investment grade rating. We recently outlined to our rating agencies the additional steps that CPIPG will take within months around disposals, minority equity, debt repayment, capital structure, and governance. Furthermore, our efforts to simplify the group by preparing for the squeeze-out of S IMMO by IMMOFINANZ are positive for bondholders. The Group’s operational performance remains strong, reflected in positive like-for-like rental growth.

The immediate impact of S&P’s downgrade is not significant. CPIPG estimates interest expense will increase by about €3 million in 2024 and between €10 to €20 million in 2025, depending on the pace of debt repayment. None of the Group’s financing arrangements contain any cancellation options or similar provisions, and therefore CPIPG’s liquidity position is unaffected.

CPIPG will work to regain investment grade ratings as soon as reasonably possible. In the meantime, we will focus on liquidity, deleveraging, liability management, simplification, and our reputation.



Short Seller

Like a tipsy cousin at Christmas who simply will not leave, our short seller has returned with yet another “research report” focused on acquisitions in London several years ago. Incredibly, our short seller is freely able to use terms like “money laundering” without providing any actual evidence to support such a claim.

Metrogate

Metrogate is a 21,700 square foot freehold property in Kensington which is leased to a student accommodation provider. In Q2 2020, the owner of Metrogate, Laroche Investment Limited, agreed to sell the property to Pisach Residential Limited at a price significantly below market value because the tenant had stopped paying rent due to COVID restrictions. The closing process was elongated due to the backdrop at the time. Prior to the completion date, Pisach began marketing a 50% stake in the property to other investors at a higher price, because the tenant had resumed paying rent. Metrogate Melrose Investments Limited, one of the investors approached by Pisach, subsequently approached CPIPG about a potential purchase; we, in turn, decided to buy a 100% stake. CPIPG saw a potential opportunity to redevelop the properties, which are in a prime Kensington location, into residences. CPIPG paid £19.5 million for the property, or £900 per square foot, which any experienced investor knows is a good entry point for freehold residential property in Kensington.

The transaction underwent a full and robust legal due diligence (CPIPG was advised by law firm Memery Crystal). Any allegation that the transaction was inappropriate is baseless and unfounded.

As CPIPG embarked on our disposal strategy from August 2022, we earmarked Metrogate for sale given its modest size, potential investor interest and high probability of completion. The sale price in 2024 was equal to CPIPG’s reported book value as of 31 Dec 2023, which was lower than the initial acquisition price as a result of softer UK real estate prices since the acquisition date. The buyer of Metrogate, who is an experienced investor in the local market, was represented by a top-tier UK law firm, Mischon de Reya, which confirmed that the buyer is not a politically exposed or sanctioned person.

Buxmead

This was a very successful acquisition for CPIPG. Buxmead is a luxury property consisting of 20 apartments in Hampstead developed by Harrison Varma, which has a long reputation for developing residential properties in North London. The development was initially successful, with nine apartments sold at more than £2,000 per square foot. However, sales slowed in the post-Brexit environment and Harrison Varma began to experience difficulties with development loans provided by a leading UK bank.

As a result, the bank required the developer to conduct an open market tender (via Savills) for the sale of the remaining 11 apartments. This was a competitive process, and CPIPG was selected as the winning bidder. CPIPG had nothing to do with any of the original investors on the site, and any allegation of linkage to inappropriate dealings or money laundering is without merit. CPIPG was represented by CMS on the purchase, who conducted a full due diligence. The purchase price was financed by CPIPG with a bridge loan provided by Barclays and Deutsche Bank, as outlined in our press release on 17 December 2018, which was subsequently repaid.

At the point of acquisition, the individual units were mostly shell and core and not ready for rental or sale. The units required further capital investments of several million pounds, which took a further two years to finalise. Thus, the purchase price was indeed about £1,000 per square foot, significantly lower than the other fully completed units, as identified by our short seller. That is because CPIPG got exceptional value by bailing out a troubled developer and their lender. CPIPG is in the process of selling the Buxmead apartments; one of the units was recently sold for 7% above the 2023 book value, or about £1,900 per square foot.



Continued Progress on Disposals

On Tuesday, the Group's subsidiary, S IMMO AG, announced the disposal of several commercial and residential assets across German cities for a total transaction volume of €255 million.

Year-to-date, CPIPG has closed more than €600 million of disposals (€340 million in Q1 2024), including assets in Germany, Poland, Romania, Italy, and Dubai. CPIPG has also signed more than €600 million in further disposals (including the recent S IMMO announcement) that will close in the coming months. Cash received by the Group will be primarily used to reduce leverage.

The Group will provide more details on our performance, liquidity and other important topics in our Q1 earnings release later this evening. We are available to speak to any investor who wishes to discuss CPIPG or these events in more detail.

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