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From Our Leaders

A message from Maarten J. Hulshoff

I'm again pleased to say it's been a strong year for business. Due to the strong economies in our home countries, an ample availability of capital and vibrant office leasing demand, our assets increased in value in all the EU capital cities we operate in. In fact, the revaluation of our assets led to a gain of €195m. This was partly triggered by a favourable 30 basis point yield shift.

Over the last 18 months, we've divested Cooper & Southwark in London, Gdanski Business Center II, West Station in Warsaw and Metronom Business Center in Prague. Together, these exits have generated over €300m in released equity.

We have opened the door to a new frontier with our very promising investment in Berlin and have consolidated our position in Prague. Both country heads, Marcel Sedlak for Germany and Petr Herman for the Czech Republic, have been in charge in their respective countries for some time.

It's London that has seen the most change. The city's office sector saw negative capital growth. The uncertainty around Brexit has resulted in a slowdown of new pipeline and construction activities there. However, this might boost the value of our new project Bloom Clerkenwell (planned completion in 2020) and our cornerstone project, One Waterloo (planned completion in 2025). Despite the challenging market, we were able to achieve very satisfactory yields. London represents 31% of our development portfolio and is also where we have the most Group exposure by value. One Waterloo is by far our biggest project in monetary terms. It's excellently located and, coupled with our track record and a talented management team under the new leadership of Steven Skinner, I'm very sure that we will realise its substantial upside, despite Brexit's challenges.

Our second largest development is 143,637 sq m Varso Place in Warsaw. Its three properties include the iconic 310 m Foster + Partners Tower and represent the vast majority of the Group's exit value in the city. Stanislav Frnka successfully established our operations in Poland seven years ago. After recently taking over as Country Head, Peter Pecnik is now smoothly overseeing the project. Currently in the early stages of development, it's 43% leased and scheduled to be completed in two years.

The third largest project is Agora in Budapest, led by another new Country Head, Jan Hubner, and his enthusiastic team. The Agora project consists of two phased developments totalling 141,151 sq m – around 9% of our Group exit value potential. Budapest is now a hugely desirable place for investors. This has led to a positive yield shift which will benefit our potential capital values. Raiffeisen Bank will base its new headquarters in the Agora Tower, a lease that was last year's stand out deal on the Hungarian market.

Our fourth largest project is Nivy Station & Tower in Bratislava with a GLA of 136,788 sq m. Despite online shopping's aggressive growth compared to brick and mortar retail, dominant downtown shopping centres continue to play an important role in public life, blending retail with hospitality to create a 'hip and happening' ambience – very much the profile of Nivy Station. Nivy Station will be the region's key bus station too, and is expected to attract more than 55,000 visitors daily. Our Slovak team is headed up by Rene Popik, taking over from Adrian Rac, who will be in charge of key strategic projects.

Together these four projects amount to an investment worth €3,750m and will create new landmarks that will become central to their neighbourhoods. Importantly, they're also in close vicinity to major transportation hubs. Their holistic design and bold ambition aligns closely with our passion for placemaking and creating districts people want to work and live their life in.

The four new Country Heads and their teams, together with our support staff at HQ, are delivering at pace as they step into a new world of office development. A world we're setting trends in as we become a Workspace as a Service provider, boosting clients' productivity and creating an environment that stimulates communication, well-being and collaboration.

We have learned a lot about working practices from our co-working business, HubHub, which is now active in five locations in the EU. Our work with Cambridge Innovation Center has played a role too. Primarily US-based and active in six locations, they develop ecosystems that help entrepreneurs during the start-up and growth phases.

As a result, we've practiced our methods on ourselves, experiencing firsthand what different ideas and innovations can do for productivity.

We also saw changes at the Board level. Over the last five years, Pavel Trenka has used his vision and leadership to not only elevate the professionalism of the business, but to manage consistent and sustainable growth while investing in new services. Though he's stepped down as CEO, I'm pleased to see Pavel active as a non-executive member of our Board.

Marian Herman, our CFO for almost 5 years, has taken over and, with Peter Ceresnik and Martin Miklas, has formed the Executive Board. Over the last 18 months, former Board members Radim Rimanek and Robert Kantor resigned too. Both have been instrumental in the developmental phase of HB Reavis, and I'm very grateful for their contributions.

We, at HB Reavis, have seen markets accelerating in tandem with rising construction costs thanks to the short supply of labour. We have been anticipating a property downturn in the EU and are well placed if and when it happens: there's strong cash flow management both across the Group and for individual projects.

Net leverage amounts to 30.5%, well below our limit, and we're lengthening the duration of our debt, most of which is covered at fixed rates.

Moving forward, we'll focus on our core leasing business and on continuing to attract prime, mostly multinational clients. Indeed, a lot of talented people are working hard to create a real sense of stability as well as remarkable properties and services that exceed the expectations of our clients.

On a final note, I want to thank all of our staff in all six countries for their contribution. Whenever I travel to meet with them, I appreciate their positive spirit, hands-on attitude and flexible approach to our industry's continual change. These are all key ingredients for a successful business together with highly appreciated support and fruitful cooperation with all the daring and inspiring people on the side of our clients and business partners.

Maarten J. Hulshoff
Non-executive director

From delivering workspaces that enhance well-being to disrupting traditional real estate thinking

The workspace sector is undergoing perhaps the biggest structural change in the modern age. What used to be considered a cost to most tenants, is gradually becoming a human resource tool to keep employees healthy, engaged, motivated, happy and productive.

At HB Reavis, we're not merely embracing this change, we're driving it – and pioneering the people-centric workspace evolution.

In 2018, we completed the shift from traditional developer to international workspace provider. We're now active in six markets, with Germany our latest new adventure. But we're also strengthening our position everywhere as we evolve our approach, for example broadening our HubHub coworking network.

Our transformational strategic shift from purely bricks and mortar to value-add workspace provider has already borne fruit across all our markets and products. Moreover, our thinking has taken another step forward over recent years, from B2B to B2U (business to user).

This new mindset has led us to explore more advanced processes and services and position our Workspace as a Service philosophy as the business' core differentiator. Today, we always keep two key elements at the forefront of our minds – the productivity and well-being of those who work and spend time in our workspaces.

We focus on building large-scale campuses and entire ecosystems. And in order to realise their full value, we aim to retain control over these assets and their property management in the long term. Our divestment strategy will align to reflect this approach and give us the freedom to maximise the potential of our services, and further enhance the user experience.

It's a strategy that will involve all five of our sub-brands: HubHub, Origameo, Symbiosy, More and Qubes. Together, they'll not only shape coworking spaces and provide strategic workspace consultancy, but also deliver technologies with sensorics platforms that provide insights into efficient use of space and analyse user behavioural data. In addition, our sub-brands deliver inspirational events and services and create flexible, attractive leases that suit modern-tenant needs and some of them we aim to roll out outside of our own campuses.

2018 has also seen significant changes to our senior management. Apart from CEO Pavel Trenka handing leadership over to me; Robert Kantor left our Executive Board, Steven Skinner became the UK Country CEO, Peter Pecnik became Poland Country CEO and Rene Popik took over the role of CEO Slovakia from Adrian Rac.

It's a huge pleasure to see such exceptional figures making a commitment to the business – not to mention all of my colleagues throughout HB Reavis Group. I'm confident that we have the skills, experience and passion to smoothly implement our strategy, and see continuous, long-term improvements.

We firmly believe that the future of real estate lies in its use as a HR tool; in its ability to deliver big (behavioural) data and its potential for connected ecosystems and innovative new services.

To lead this market transformation, we've introduced Vision 2023: a key document that outlines our five-year business plan for our colleagues and 3rd party stakeholders.

Vision 2023 is built on three pillars:

1. To be a leading international provider of workspace solutions
2. To have highly engaged people and contributing team members
3. To operate as a well-oiled machine

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The Vision outlines the ambition to deliver our substantial pipeline and grow across our existing markets as a Workspace as a Service provider. It will help our people to stay highly engaged and understand our collective aims and ambitions. And it will give us a blueprint for functioning as a well-oiled machine, capable of scaling our industry's complexity and diverse geographical challenges.

In the short-term, our focus remains on top line growth – achieving premium lease and commercialisation terms. We strive to keep construction costs under control too (given tight operating capacities and a booming construction environment), and constantly review our operating efficiency.

However, it has been difficult to build a sufficient large-scale Prague pipeline. This led us, in early 2019, to scale down our Prague operations and to dispose of three projects in the city.

It was a difficult decision, but we believe our financial and managerial resources will bring greater rewards in other markets, notably in Germany where we plan to substantially scale-up our presence in the near-term.

I'm firmly convinced that these initiatives, combined with our 2023 vision and our Workspace as a Service (WaaS) repositioning, will significantly improve shareholder returns over the coming years. Just as importantly, it will ensure our continuing market leadership in the European workspace landscape.

In short, we're about to see a substantial growth of our activity across all the markets and products. I would argue, there have been few more exciting times in our history. All this would not be possible without the enormous effort of our teams in six countries, plus support of business partners and clients. Therefore, big thank you everyone!

Marian Herman
Group CEO