Transcription

Kojamo Q2 2022 / Interim report

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PRESENTATION

Niina Saarto

Good morning, and welcome to Kojamo's Half Year Results news conference. My name is Niina Saarto, and I'm Group Treasurer and Head of Investor Relations. Today's presenters are our CEO, Jani Nieminen and CFO, Erik Hjelt, who will tell you about the first six months' events. After the presentation, we will take questions, first from this room, then from the conference call line, and finally from the chat. But now, I would like to hand over to Jani. Please go ahead.

Jani Nieminen

Good morning, everybody. Nice to be here, providing colour on what's been going on here in Kojamo and in the Finnish residential market during H1 this year. But first, I just want to mention that the building on left-hand side in the picture is a Lumo One tower. First tenants actually moved last month, and today, even prior to completion, the occupancy is actually already above 90%. So it's been a huge success story. But moving forward closer to our half-year figures.

In the big picture, I would say our H1 key figures are solid. We've been able to create profitable growth. We acquired almost 1,000 apartments and our financial position is really strong. In the market as COVID 19 restrictions were lifted in March, since that, we have seen the rental market improving towards the summer. That's kind of the big picture.

Then moving closer to the operating environment. Of course, the continuation of Russia's attack towards Ukraine has had an impact, creating inflation, interest levels increasing, construction costs increasing. And now what seems to be happening in the market is that a substantial decrease concerning new start-ups, especially non-subsidised block of flats. The estimated decrease is 29%. In my eyes, it may be even bigger one. The total amount of start-up estimated officially 39,000. In this thinking includes only the decrease of non-subsidised block-of-flats. But I would assume that in the total market, as well other parts of the construction business like social housing, one-family homes, new start-up will decrease. So housing volumes start-ups in Finland will decrease.

On the other hand, we have seen a significant construction cost increase in the industry at the moment, in a way, what the construction companies provide information. It seems that this cost increase is slowly levelling off. Rent levels are increasing back again in the whole market. Home prices is still increasing this year. Now, of course, the latest information seems to be that homebuyers are getting a lot more careful. And that may have an impact in the owner-occupant market, actually creating more demand towards the rental market. Then inflation has been a big topic and most probably will be a topic towards the rest of this year.

Inflation level estimate here in Finland, 5.8. Actually there in my eyes, it's good to know that for us in Kojamo, the inflation impact, the cost increase, if you think about maintenance costs, H1 this year, the increase was 1.9%, if you calculate euros per square metre per month. So not the whole inflation impact is coming to our figures. We are able to optimise our doings that, and on the other hand, buildings use energy and need cleaning and maintenance repairs that they don't need. They don't buy groceries.

In the upmarket otherwise, actually, a couple of large portfolio deals being made during the summer both around 2,000 apartments. So it seems that there's a lot of interest towards the Finnish rental market still. Deals seems to be in a normal level. No impacts there, because of the market situation. Of course, we have seen a couple of portfolio deals postponed or taken away from the market. On the other hand, we know that a couple of new portfolios are entering the market.

We released information prior that we are considering a possible disposal. No decisions being yet made other than that we decided to postpone this project because of the uncertainty related to Ukrainian situation, NATO discussion, raising interest levels. So in that sense, we saw the market must be a bit cloudy, and at the end of the day, as we've been saying, we don't have to sell that portfolio. We are happy to enjoy the net rental income.

Moving a bit forward. An important aspect is that we do still believe that all the megatrends creating long-term need for new rental apartments are still valid, so urbanisation will continue. A number of small households in Finland seems to be still growing. Values towards ownership have been changing. People seem to be choosing easy and effortless living in rental apartments, not that anxious anymore to take the housing loan. As the table on the right-hand side, the bottom corner shows, actually in all the big cities, the number of households living in rental apartments is still increasing on an annual basis.

Towards the summer, as I said, we have seen the improvement of the rental market. Actually, one factor is that it seems that there was uncertainty related to Covid-19 and the restrictions as they were taken away in March, whether new restrictions would be entering. We have seen an increasing number of new job opportunities in Helsinki region. People being a bit careful in order to move towards Helsinki. Actually, Q2 this year, net migration in Helsinki was again positive. Students are active in moving into university cities. Now an age group between 25 to 35 people. An increasing number of new tenant agreements actually means that people are coming to Capital region in order to start working.

Our renting, even though it's in a way not a H1 figure, I have to say that actually we did make a new record concerning new tenant agreements this July and August seems quite strong, providing a lot of new tenant agreements. And of course, that way it will have a positive impact toward the occupancy as towards the end of H1, tenant turnover has been decreasing.

In the operational environment, of course, as I said, we estimate that there is a substantial decrease concerning new start-ups. Aspects behind that are increase in construction costs, home buyers' intentions to buy apartments are decreasing, and of course, housing loan interest levels are increasing. That's creating a bit of a challenge situation for construction companies to provide build-to-sell projects. At the same time, you have to keep in mind that all Kojamo's projects are turnkey projects, fixed-price projects, so our projects are proceeding in a normal manner. Remains to be seen what's the situation later this year as construction companies have been saying that the constant increases seem to be a levelling off. So mainly the impact of the Ukrainian situation.

Digging into the half-year figures. As I said, strong figures, solid performance providing profitable growth. Total revenue increased 3.1%. We've been quite consistent with our strategy, increasing the rents in a normal manner as we have seen the Covid-19 situation as a temporary thing. Of course, there has been an impact in occupancy, providing a moderate like-for-like growth. So basically, the total revenue growth has been coming in by a high level of investment, so buildings completed last year and during this year. A strong performance in net rental income improvement compared to last year of 4%.

Of course, if we look inside the maintenance, there was an increase of €2.7 million. Biggest couple of aspects there: increase in electricity, €0.9 million, increase in property taxes, €0.7 million. Mainly because we just own more buildings. And then some savings concerning repairs. FFO growing strong, 2.7% increase there against the comparison year. Of course, a positive thing there is the net rental income improvement. On the other hand, there is an impact because of financing and the actual green bond we launch at the end of Q1. So as we have more debt that had an impact. On the other hand, I would say that was a good thing to do. During Q1 we were cash rich and actually the interest levels are in a good level in Kojamo.

Fair value of the investment properties at the moment, €8.7 billion. We are investing a lot. There has been a positive development concerning fair values, and as I said, investing a lot across the investment during H1 €338 million, I would say in a big ballpark, around €230 million. New development projects close to 200 million acquisitions, and then roughly €10 million modernisation investments.

Profit excluding changes in fair value improved by 2.7%, being €82.7 million. So a good solid performance there, and then profit before taxes, €157.8 million. It's good to keep in mind that this year, the impact of changes in fair values of investment properties there was a positive impact €75 million, mainly because of the strong development gains we are receiving as we are completing apartments. But on the other hand, we have to keep in mind that a year ago, the corresponding number was €446 million. And yields were going a bit down. But in the big picture, solid figures, good performance.

As we've been saying for us, it's important that we are able to grow by using multiple sources. We've been quite careful what to buy concerning existing portfolios. We were able to find a portfolio matching our parameters, good micro locations, quality new apartments. We bought a portfolio of 942 apartments in June. There's been some questions concerning the transaction price. In a big picture, I would say that well below €200 million. We don't have any revenues in H1 figures. We did do the acquisition during H1, but actually revenues are generated from the beginning of July, and it seems that occupancy-wise we've been having quite a good start. And towards looking in the future the stabilised yield is 3.8-ish.

Being able to use multiple sources in order to grow is a way to optimise the growth. So now we were able to buy close to 1,000 units. On the other hand, we still have more than 2,200 apartments under construction, mainly in Helsinki region. This year has been quite active in order with the completion, so close to 800 apartments were completed. We are helping people to move towards the big cities, providing new homes. We've been consistent with our strategy. All our projects have a high-quality micro location close to public transportation services. All the projects are turnkey projects with a fixed pricing, actually, meaning that the development gains are around 30%. So providing good impact on fair values looking forward.

In a market Lumo operates in a way that we really want to provide easily best living. So it's a combination of providing apartments, communal spaces, and services. So our strategy is to provide added value for the customer. Some of the services are included in the monthly rent. Some of the services tenants pay as they use them. We don't aim to be the cheapest player in the market, only the best player in the market.

Looking to the services, for example, the installation of dishwashers has been appreciated by the customers. There seems to be an increasing number of customers there. A couple of new services. Carbon footprint test is available in My Lumo. As well, our tenants are able to buy carbon-free district heating using My Lumo application. So actually able to join the movement. Now, if, Erik, you would go a bit deeper into our figures, please.

Erik Hjelt

Thank you, Jani, and good morning, everybody, from my side as well. So page 13, our total revenue growth was €6 million, 3.1%. The like-for-like growth was -0.4%. We've been increasing the rents and water charges is in a normal manner. So that contributed positive 2.2 figures, 2.2% occupancy rate, negative figure there of 2.7%, and others 0.1%. So the growth was mainly generated by the growth of the property portfolio. So, during H1 this year, we completed 784 apartments and H2 last year 841 apartments. So of course, that generates growth for top-line. As Jani mentioned, the portfolio acquisition didn't contribute any cash flows during H1, it's starting to contribute for top-line growth 1st of July.

Net rental income growth was €5 million, 4%, maintenance expenses up by €2.7 million. Electricity biggest factor there. So up by €0.9 million. Property taxes €0.7 million, heating €0.2 million, and all other items were pretty much in line with the corresponding period.

So what comes to the heating, it's of course, heating expenses as such has been increasing, but given the fact that the weather, so the milder winter this year offsets the increases in prices. Repairs decreased by €1.6 million.

So FFO, if you first look profit before taxes, so excluding changing values, there was an increase there. If you look at the changing value part of the equation, so yield requirements were kept unchanged and we increased our assumptions related to inflation, rent increases and expenses increases 30 basis points, to somehow reflect the change in inflation environment. Of course, this valuation is based on ten-years cashflow calculation, so it's inflation for ten years and not the inflation figures today.

During Q2, and we had one property where the restrictions ended, contributed roughly 4% of the change in fair value. So almost all positive change in fair value of investment properties was due to the completed developments or development gains and all these developments, on average, the development gain has been north of 30%.

FFO increased by €1.9 million, so net rental income contributed €5 million as mentioned. SGA expenses up by €0.7 million. No big changes there. Finance expenses up by €2.2 million because of the bigger loan portfolio that we currently have. Cash tax is flat, so €9.1 million as in the corresponding period. So, Covid-19 had an impact for our occupancy rate. Rate came down 0.4. Of course, it's not on a satisfactory level, but nevertheless, we think that the impact is temporary and related to Covid-19. Now, we have seen actually several positive signs. One is that restrictions regarding Covid-19 has been removed in Finland in March this year, and we have seen since that people are starting to move towards Helsinki region especially. So the total population has increased and now is increasing according to statistics. We have seen students starting to be active and some tourists are here as well. So all these are of course, positive signs and according to our estimates that how we are going to come out of this restriction, one is that students will be the first movers, then people will start to move towards the Helsinki region where there are a lot of working opportunities. And then then tourists will return to Finland. That part we have already seen.

Other positive sign is there that our tenant turnover came down by 1.3 percentage point. And most of that, almost all of that positive change there was during the Q2. So, back of ending restrictions. And then tenancy agreements completed in July and August. So clear improvement compared to the previous years. So there are clearly positive signs now in this occupancy rate. I think we covered already like-for-like rental growth.

So investments, €338.4 million. As Jani mentioned, the acquisition of this sizeable portfolio included in these figures, and it started to generate cash flows for us in 1st of July. And then other part of these investments, of course, were developments both completed and ongoing developments. Modernisation investments, €7 million. Modernisation investments, slightly up, €2.1 million, and repairs decreased €1.6 million.

Investment properties, €8.7 billion. And of course, biggest contributors, acquisition, ongoing developments as well as positive change in fair value on investment properties. We still have little more than 1,800 apartments where we have restrictions regarding valuation and those restrictions will gradually end by 2024. And we are going to get a uplift of €110 million to €130 million when these restrictions end, and we start to apply different valuation techniques. We are not aiming to dispose those, maybe just start to apply a different valuation method there. And the uplift in value is somewhat back.

Then if you look euro-wise, our ongoing development as the land bank. So these 2,230 apartments under construction, €331 million already invested and €232 million to be invested in order to complete this ongoing development. And binding agreements, little more than €100 million to be invested fixed price there as well, as in this ongoing development and under these binding agreements, we have apartments, 363 apartments.

We estimate that the development investments this year is going to be between €280 million and €330 million. 94% of all this in Helsinki region. So actually, we have one project in Turku and one project in Tampere ongoing, and all others are located here in Helsinki region. We have fixed prices as mentioned in these binding agreements as well as on these apartments under construction. Net initial yield 4 ish % still. And we estimate that the development gain is going to be north of 30%.

Equity ratio, loan-to-value, we have strong figures there. The target is to have equity ratio above 40% and loan to value of below 50. And we have quite sizeable buffer against these levels. The increase in loan to value of the Q1, nothing exciting there. So actually, we made this Eurobond during Q1 and net debt, that was included in net debt calculation. And this portfolio acquisition was paid as cash, so that plays a role in net debt calculations. Nothing exciting there.

EPRA NRV, 22.29. Growth from corresponding period, 16.9%.

Our financial key figures are very strong, and here it's good to note when you compare our figures to many other players in Europe, especially in Sweden, we have strong balance sheet figures, we have a high hedging ratio of 91%. Actually, our average cost of finance decreased during Q2, down to 1.7. We still have quite sizeable cash positions, our cash and cash equivalents and financial assets total €240 million. We have credit lines, €300 million, a committed, unused and commercial paper program, €250 million. Outstanding commercial papers, €65 million. And our average maturity in our loan portfolio and as well as our fixed interest period close to four years and no major maturities in the next 12 months or so.

Our strategic targets, top-line growth 3.1%. H1 investments €338 million. So growth is there. FFO against total revenue 35.7. Here it is good to keep in mind that because of IFRIC21 the whole year’s property tax is already included in our figures during Q1. And if we adjust the FFO against total revenue by the H1 portion of property taxes, so €5.85 million, so that means roughly 3 percentage point improvement in FFO. So that means the FFO / total revenue will be improving going forward this year.

Loan to value equity ratio already discussed, and Net Promoter Score 43, and there now we include the digital NPS as well.

Our outlook this year specified. So now we estimate that the total revenue increase will be between 4% and 6% and we estimate that the FFO is going to be between €155 million and €165 million. If you look what might take us towards the higher end of this top-line growth range, so, that requires that we are increasing the rents in normal manner between 2.1 to 2.5%. That's what we've been doing so far and that's our aim to achieve second half of this year as well, and some improvement in the occupancy. Then of course, completed apartments, those ones that's completed, especially Q2 and Q3 will be contributed for the top-line growth. And then this portfolio acquisition that already we discussed.

And what assumptions we have for FFO guidance. So if we take the mid-point of the guidance, that reflects our specified top-line outlook. And we have a couple of assumptions there. One is that normal weather during H2, because the weather plays a role for maintenance costs and current inflation figures included in our assumptions as well in the midpoint of FFO guidance.

Dividend policy. No changes there. So, 60% of FFO providing that the equity ratio above 40%, and that is clearly the case today. So at this stage, back to Jani.

Jani Nieminen

Thank you, Erik. Before Q&A, in a way a bit summarised. Easy to still say that we've been proceeding very systematically according to our strategy, as usual, been able to provide profitable growth. Megatrends creating long-term demand for new rental apartments in the big cities are still valid. And now, looking short term, the rental market seems to be improving. As Erik described, our financial position is really strong. We are able to create growth using multiple sources. And actually, during H1, investments €338 million was a strong figure providing future growth. And now if we would move to Q&A by Niina.

Q&A

Niina Saarto

Thank you very much, Jani and Erik. Let's start with questions from here. Do we have anyone?

Okay. It seems that there are no questions here. Let's take the conference call line then. Operator, we are ready.

Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypad now to enter the queue. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from Anssi Raussi of SEB. Please go ahead. Your line is open.

Anssi Raussi

Thank you and good morning. I have actually a couple of questions and I go one by one, if I may. The first one is about capital allocation. And if we think about your asset yields and the cost of debt, how do you see the situation in terms of effective capital allocation? What should happen in spreads between bond and asset yields that you would actually start to divest assets and repurchase your bonds? And also, how do you see share buybacks instead of acquiring properties as your share is trading below EPRA NRV value? That's the first one, thanks.

Erik Hjelt

Thanks for the question. As described, our financial key figures are very stable, given the high hedging ratio and our average cost of financing declined actually during Q2. And we still have quite strong cash position, so we are able to invest there. So if you get 4-ish % net initial yield in new developments with the average cost of financing of 1.7. So that makes a lot of sense to invest according to our strategy.

Of course, if you look then the price of new financing, that has been really a rollercoaster. If we compare total price for us was starting on this year, then there was the summer and today, and the changes have been substantial and it's very difficult to predict what the additional financing is going to be when we finally need it. And the good thing is that we don't need to make any new finance agreements in the next 12 months or so. So that, of course, gives us a very, very strong position and again, compared to many other players, especially in other Nordic countries. So we haven't seen any need for a change to our approach towards the capital allocation regarding new developments or acquisitions or disposals.

It's unclear right now where the yields are heading. As Jani described, there has been portfolio transactions, quite actually aggressive pricing. There are a couple of portfolios coming into market, according to our understanding, and at the same time, several portfolios there were in the market, but those transactions postponed. That remains to be seen where the prices in the market, what comes to portfolio transaction is heading going forward. Finland still seems to be an attractive target market for international investors. What we estimate that is going to be that construction companies will come to a situation that they might start calling us again and offer us attractive projects. And since the demand for owner-occupied homes is declining clearly in Finland, so that's something that we are looking at going forward as well.

Anssi Raussi

Okay, thanks. And actually, my second one is a bit related to the first one, and it's about development gains, like what kind of development gains you're currently seeing. And are you taking into account how markets are valuing your share? What I mean is that if we look at Kojamo's share price, for example, or market cap, we assume that markets are not valuing Kojamo with the same yield which is used in official EPRA NRV calculations. So how do you see the situation regarding development gains at the moment?

Erik Hjelt

We of course are not commenting share prices, so EPRA NRV and how the market sees that. But the thing is that in all our ongoing developments, as well as our binding agreements, we have fixed prices, and we estimate that the development gain is north of 30%. Nothing changes there in our portfolio.

Anssi Raussi

Okay, clear. And the final one from me is just an overall question regarding market demand. Like, how do you see the demand actually at the moment then? I mean, your occupancy ratio still came down a bit in Q2, but we know already that the students should be coming back to the cities now. But also, could you remind us how much you expect to see impact from students moving back?

Jani Nieminen

Thank you for the question. I try to provide colour since the restrictions were lifted in March. We have seen an increasing number of job opportunities here in the Helsinki region. It seems that there was some uncertainty by individuals in order to move towards Helsinki. Moving toward the summer, we have seen activities increasing in the rental market in the summer, students being active. We did make a new monthly record concerning new tenant agreements in July. August will be strong. We already know that. So in that sense, the market is now coming back to normal.

And looking backwards to what's been going on in Q2, Q2 was the first time net migration was positive in Helsinki. Espoo started already during Q1. Vantaa still balancing on close to zero level. So now it seems that these indicators are moving towards a positive sign. We've been estimating all the time that students will start moving towards university cities during the summer. It seems that there was a bit of delay before working people started moving towards Helsinki region, related to the uncertainty, whether new restrictions would be entering. The supply in the market has been coming down now on a monthly basis in Helsinki. In my eyes, not a surprise that of course the cheapest apartments are absorbed first from the market. But as I said, we did make a record high number of new tenant agreements in July. So at the moment, we are doing okay.

Anssi Raussi

Okay, thanks. And actually, one quick one from me about asset yields in Q3. What kind of development have you seen? Are transactions still going with the same kind of yields as seen in Q2 or how is it?

Jani Nieminen

As Erik provided colour, and as usual, we don't provide any outlook concerning yield developments. Our valuation is based on analysis concerning concluded deals, that we have seen a couple of sizeable deals in the summer, pricing was still aggressive. So those transactions what we have seen in the market provide no data that there would be a change in yields.

Anssi Raussi

Okay, that's good. Thank you so much.

Operator

Thank you. Our next question comes from the line of Andres Toome of Green Street. Please go ahead. Your line is open.

Andres Toome

Hi. Good morning. Just wondering regarding your occupancy rate, which has obviously come down again, just trying to understand why is Kojamo's occupancy still going down whilst your peers are actually able to increase occupancy already for two quarters in a row? Is it just a function that you are protecting rental rate growth at the expense of occupancy and that peers are doing sort of the opposite? Or is it something else that is creating this divergence in relative performance?

Jani Nieminen

Thank you for the question; it's a good one. And of course, different players seem to have a different strategy, and that's good for the market. We've been quite systematic in our strategy, seeing that the impact provided by Covid-19 is a temporary thing. We've been increasing the rents in a normal manner. I've been saying this prior: one of the easiest things in this business is to improve occupancy. You just start lowering the rent enough or start spending money in repairs and personnel. And it's good to keep in mind that when you compare companies, you should use multiple figures and compare the key figures as well.

But as I said, it seems that as the market has been improving, it's not a surprise that, for example, students absorb from the market first the cheapest apartments. And the most price-sensitive customers are looking for the cheapest apartments now, but in the future as well.

Andres Toome

Okay, understood. And my second question then, sort of a follow-up in regards to the comments you made about quite strong leasing volumes coming in in July and August, looking quite good as well. Just wondering if you're looking into sort of year-end, are we in for a big spike in occupancy rate or is it going to improve materially now? And I think not even asking for a forecast, really, but what are you seeing today insofar as if you were to close the books again today, would you be reporting a higher occupancy than in June?

Jani Nieminen

It's a tricky question. Yes, we do not provide any forecasts or outlooks concerning occupancy. But as I said, we did have a record high number of new tenant agreements in July. There was a decrease concerning tenant turnover towards the end of H1. August, if we look at the number of new tenant agreements, is strong. These are all positive indicators. I did say that it will have a positive impact in occupancy. Of course, there is a slight delay always when you make a tenant agreement until you move the apartment. Sometimes it's 24 hours, sometimes it's a couple of weeks, sometimes one month. But yes, we do have a positive thinking towards the future.

Andres Toome

Thanks for that. And my last question is regarding your disposal portfolio that you were sort of putting on the market and you've taken it out. Just wondering, did you get any bids on that and how much were they below your asking price? I guess then because you have taken it off the market.

Jani Nieminen

We haven't said at any point that we will sell the portfolio. We have been saying that we are evaluating the strategy and whether we would be willing to sell the portfolio. As things started happening, bad things in Ukraine, we felt that the atmosphere is not the best possible one. Because if you don't have to sell something, you really need to get attractive pricing if you would be willing to sell it. So we didn't feel that the market was clear enough to start that kind of operation.

Andres Toome

So there were no bids, really, and that sort of assessment was more on the back of broker indications, I guess, in terms of where you could expect reasonably to sell?

Jani Nieminen

Of course, we've been doing kind of market sounding, but we didn't feel like moving forward, like really move forward.

Andres Toome

Okay. Thank you. That's all.

Operator

Thank you. Our next question comes from the line of Svante Krokfors of Nordea. Please go ahead. Your line is open.

Svante Krokfors

Thank you and good morning, Jani, Erik and Niina. A couple of questions left from me. The first one regarding rent increases. You have been quite consistent with the 2.1 to 2.5 rent increases. How are you reasoning regarding that, given the inflationary environment and the increasing costs?

Jani Nieminen

Well, of course, for the short term, we are consistent with our strategy. So, as always, we've been saying, providing the colour, that our aim is to create like-for-like growth between 2.1 and 2.4/2.5% without the positive impact of occupancy. But then looking forward in the market, I see that now I talk about the whole market, not about Kojamo, there's an increase in maintenance in all residential buildings in Finland. That will provide pressure for individuals owning rental apartments. They've been having quite low yields, and now the cost is increasing significantly. They are not able to use big volumes like we do. That will provide pressure for the market. At the same time, we see that the supply in the market is decreasing and typically when that happens, that will provide an impact on rent increases, and we are following the market on a daily basis. And our aim is to get the market price we feel is right at all time.

Svante Krokfors

Thanks. And you have kept the rent increases perhaps a bit at the cost of higher vacancy rate because of the temporary situation from the pandemic. But what kind of threat do you see from the still higher supply in the market than pre-pandemic levels on your occupancy rate long term?

Jani Nieminen

As I said, it seems that the market is coming back to normal. The supply in the market seems to be coming down. The number of new start-ups is decreasing substantially. So, looking forward, there's less new supply coming to the market.

On the other hand, what we see in the market is that home buying intentions are low level. And if people stop buying homes, that will create pressure towards the rental market. And either way, supply from the market, so in that sense, there is the long-term demand for new rental apartments and our capabilities to increase the rent in the long term.

Svante Krokfors

Thanks. And the last question regarding the transaction in June, I think you said that the stabilised yield 3.8% sounds quite attractive and I guess the square metre price less than €6,000. Was it an off-market deal or was there intense competition for the target?

Jani Nieminen

I would not provide any detailed colour on that. We made a good offer, and we are happy with our deal.

Svante Krokfors

That sounds like a good deal. Thanks, that's all the questions from me.

Operator

Our next question comes from the line of Erik Granström at Carnegie. Please go ahead. Your line is open.

Erik Granström

Thank you very much and good morning. Almost all of my questions have already been answered, but I have one follow-up and that's regarding the outlook. Could you just specify a little bit the reasoning behind narrowing the range here in Q2? Was it due to things you've seen in the rental market? You mentioned increased activity or is it because of the transactions that you made in the summer? Or could you just specify that just to make sure?

Erik Hjelt

Yeah, sure. So typically, we narrow the guidance at this point of the year because now at this point we know H1 figures and it's more visible what is going to happen second half of this year. Now we have this transaction completed, we know what is the rent level, what is the amount of new agreements, July, August. So the view is clear. That is one reason why we want to narrow the guidance range at this stage. So this is a normal timing for narrowing range. Of course, one may argue that because the market is a little cloudy, our focus, also, one might want to keep the guidance unchanged. But since we think that we have enough visibility for the H2 and that's why we did it, the narrowing in a normal manner. So nothing out of the ordinary there.

Erik Granström

Okay, but the acquisition that you did make in June is included.

Erik Hjelt

Now, the €4 million top line that the acquired portfolio will provide second half of this year is included in the guidance.

Erik Granström

Okay. Thank you. Those were my questions.

Operator

Our next question comes from the line of John Vuong of Kempen. Please go ahead. Your line is open.

John Vuong

Hi. Good morning. Thank you for taking my questions. Just a couple of questions left. On the tenant turnover, what would you say is the driver for the decrease at the end of H1?

Jani Nieminen

I would say there are several reasons. People are feeling more confident. What we saw a year ago was a positive period in people's minds. We saw a high number of new tenant agreements. Then towards the autumn, Covid-19 kicked in and students started moving back to their parents. People started losing jobs because of restrictions and started moving away. Now things are normalising. People are more confident. On the other hand, yes, we did make a change in our business model. And the first period of staying since spring is 12 months. So we are looking for more permanent tenants as well.

John Vuong

And how would you expect that this would develop for the rest of the year?

Jani Nieminen

It's not easy to predict, of course. It will have an impact, as all the new agreements include a minimum stay of 12 months. The other aspect is that hopefully things will stay in a normal manner. So no new Covid-19 variants in the planet, no new restrictions, so people would be able to study face to face in the universities and other places as well. People would be able to use services and their employees would be able to work in a normal manner. If this stays, I feel quite good about our tenant turnover at the moment.

John Vuong

Okay. That's clear. Just on the development starts, you mentioned that they are decreasing. How does this relate to the natural medium-term net migration? Would you say that this is rather imbalanced or is it in favour of the tenant or landlord?

Jani Nieminen

Sorry, I really didn't hear the first part.

John Vuong

On the development starts, you mentioned that they are decreasing. How does this relate to the natural medium-term net migration?

Jani Nieminen

As I said, it seems that the city of Helsinki is now picking up speed. Q1 concerning net migration was positive. It hasn't been during Covid-19, and that's not a usual thing here in Finland. Looking forward, we do estimate that urbanisation will continue according to the estimates. Helsinki region is the heart of Finland. Most of the new jobs will be created here and as things normalise, urbanisation continues, that will either way, the supply from the market and of course, then it remains to be seen how many months it will take when we are back to normal levels.

John Vuong

So just to summarise, you do expect that the imbalance is going to grow in, say, two or three years when these developments are coming in?

Jani Nieminen

If you compare the imbalance in such a manner that there would be oversupply in the market in three to four years, I don't believe in that because now we already see that the number of new start-ups is going severely down. And when urbanisation continues, creating more demand and new supply goes down, there will be the balance in the future. And then at the end of the day, it's good to keep in mind that actually Kojamo don't place a strategy on the imbalance between supply and demand. Our aim is to provide best, effortless living.

John Vuong

Okay. That's clear. Thank you.

Operator

We currently have one further question in the queue. So just as a reminder to participants, if you do wish to ask a question, please dial 01 on your telephone keypads now.

The next question comes from the line of Paul at CTI. Please go ahead. Your line is open.

Paul Goury

Thanks. Good morning, everyone. It's Paul Goury at CTI. I just have a couple of questions. The first one is on the valuation, and obviously crept forward again in the quarter. I'm just trying to understand, with the vacancy still moving backwards, why that's not reflected by the valuers. It's clearly a cash impact, and yet the valuers seem to just be using a standard assumption rather than reflecting that the vacancy is actually increasing. So can you just give a bit of colour as to why that's the case?

Jani Nieminen

Thank you for the question. Of course, it's important to keep in mind that the valuation is based on a discounted cash flow methodology concerning the next ten years. So all the estimates should be valid looking forward ten years. As the occupancy is handled, the situation in the market we've been saying it's temporary. We follow, and of course, we use an outside expert providing the final decision making there. On the other hand, there is a feature in the valuation that actually all the empty apartments are handled as to be empty for the next 12 months. So in that sense, the occupancy has an impact in the valuation immediately, meaning that if the occupancy would improve, it will have a positive impact because there are less apartments handled as empty for the next 12 months in a cash flow model. On the other hand, if the occupancy would not improve, there is this feature included.

Paul Goury

Okay. So just to clarify, it sounds like the increase in vacancy should be having an impact on valuation, but that's not what we've seen. The values have moved forward consistently over the whole period where the occupancy has been declining.

Jani Nieminen

So in that sense, the occupancy is reflected in the valuation because all the apartments which are without a paying customer are handled in such a manner that they won't provide cash flow for the next 12 months in the evaluation.

Paul Goury

Okay. I take the point. Just then, I would have expected that the valuation would have come down when the vacancy is now, you know, much lower than the assumption at 97%. And therefore, I would have expected a very large step-down in the cash assumption, if what you're saying is correct, is that all of the empty apartments should be featured in the cash flow, should be featured in the valuation.

Just on the ten-year forward point – sorry, just finishing the thought – just on the ten-year forward point. Again, I take it that it's a theoretical value for ten years, but how many years have we have now behind the 97%? So this year definitely, year before, and I don't think the actual occupancy has been at 97.2%, which is the number given as the valuer's assumption. So at what point is this sort of temporary occupancy no longer temporary when it's been going on for kind of three years?

Jani Nieminen

That's something that the outsider expert is included to make the decision making. Of course, one has to be able to say that the market is normal. Not in any way, the market during the last few years has been normal because of Covid-19.

Paul Goury

And yet the discounted rate as well hasn't reflected any kind of market uncertainty. So everything's just been kind of left as a normal market, even though we've been in abnormal times. Is that fair?

Erik Hjelt

This discounting factor is actually coming from the markets. So it's market observations based on transactions completed and the yield base there, so there we take the yield part of the equation and then we add when we do the discounting and we calculate discount factor, then we add inflation. And now we, as already mentioned, we increase the inflation factor by 30 basis points. So that's how the yield part of the equation works. So it's not based on anyone's view where the yields are, it's based on transactions completed in the market. So it's pretty much a factor.

And as Jani already explained, this temporary thing is that we discussed that with the external evaluator, and their thinking is that since we were above this for this 97.5% before Covid-19, and they expect that to be the case after Covid-19, and they are taking a ten-year view here. And they think that the reason why the occupancy is now lower than that is temporary. It's Covid-19. And of course, they haven't given any year, so how many years they want to follow this, but as long as they see the reasoning behind the current situation as temporary, there's no need to make any changes regarding the occupancy, I mean.

Paul Goury

Yeah, okay. Yeah, that's clear. Thanks. I had one other question, which is a follow-up on the previous and just on the portfolio transaction that you've pulled. I take the point about the market uncertainty and whether it was the right time to sell, but given we've seen the two large transactions, I think 2,000 units, obviously there kind of was the demand there and there was a particular interest in Finnish resi at the time. So I'm struggling to square those two points a little maybe. You obviously saw market uncertainty that meant that a sale wouldn't be possible, yet we saw two large portfolios go through. So to see just a little more colour there.

And secondly, maybe if you can explain what the differences are between the portfolios that did go through and yours, which you decided not to pursue, was it kind of a pricing difference? Is it a quality of assets difference? Just any more colour on that space.

Jani Nieminen

Okay. Of course, in a way, it's a timing question. Those portfolios which were completed during the summer, we don't know the exact date when the processes in the market were started. Typically, we hear when the process is ongoing and completed, we follow the market and the market thinking. And as Russia attacked Ukraine, there was a NATO discussion going on in Finland, and how would international investors consider Finland. Prior to NATO's decision, there was the interest rate discussion ongoing, so we decided not to start this kind of project and try to really sell it.

And, yes, there is now proof that it would have been doable. But sometimes you have to make the decision with the existing information, and we did decide otherwise because we really didn't have to sell it. And the other players decided to go through with the process, and they were able to conclude the process and complete the disposal. For us, it's a good thing because they were non-core portfolios, the pricing was quite attractive, quite aggressive, showing that there seems to be still quite a lot of interest towards the Finnish resi market.

Paul Goury

Yeah. Okay. And, sorry, just a quick follow-up on the back of that then and turning to the LTV. So now kind of 41%, the disposal would have been a helpful way to bring that back down maybe. Can I just check what level you're happy to get to, based on the CapEx programme and whether you're comfortable pushing on at the moment from the 40 to the mid-40s.

Jani Nieminen

Would you repeat it?

Paul Goury

Yeah, sure. So the question was on the LTV, because the portfolio sale would have brought your LTV back into a maybe more comfortable area, sort of maybe 4% down. I'm just checking where you're happy to push the LTV to from the 41% today, based on the CapEx program and the outlook.

Erik Hjelt

The current loan-to-value level is very healthy. So our target is actually to keep loan-to-value below 50, and that figure is actually coming from the rating agency matrix. So our current public rating Baa2 Moody's with a stable outlook, that's anchored in a one-way to these loan-to-value levels and 50 seems to be one level there. So we have actually quite sizeable buffer, ten percentage point buffer against these levels what the rating agency feels is right for our current public rating.

So we think that this level is very, very healthy, given that we are operating in the less riskier part of the real estate market. Our key figures are very strong. We have very attractive price level in our loan portfolio. So average cost of financing is 1.7; very high hedging ratio, 91; very long average maturity in the loan portfolio; and a very long fixed interest rate period. So we think that this 40% is very, very healthy.

And on the other hand, it gives us a space to invest, and if we find something to be acquired, we are easily able to do both from the balance sheet point of view as well as access for additional financing. So we think this is quite very, very healthy situation.

Paul Goury

Yeah. Okay. That's clear. Comfortable with the current level, happy to push it forward and 50 with the max. Yeah. Okay, that's clear. And that's my question. Thanks, guys. Very helpful.

Operator

There are no further questions from the phones at this time.

Niina Saarto

Okay, thank you. Let's take some questions from the chat. I think we have covered most of these already, but a few remains. So, "What risk on your property cost do you see from the rising energy costs?"

Erik Hjelt

So actually, of course, the energy prices have gone up and there are reasons to believe that that is going to be the case, especially during the winter. It's good to keep in mind that in Finland we don't actually use gas for heating, and this provides us only very small part of the energy consumption is based on gas. So gas is not playing any role actually in Finland.

When it comes to the heating cost side of the maintenance costs, as already discussed, the impact of heating costs, H1 was quite limited. And of course, the prices went up slightly, but that was offset by the milder winter. So the weather is playing a much bigger for heating costs than price changes. Electricity prices, of course, is one thing where we are paying for property energy used in buildings, not inside the apartments, but the building. And there those prices have gone up and there are estimates that those prices might go up during the winter as well.

So, yes, we do have hedging in place. Electricity costs are hedged, so that, of course, limits the impact of price increases going forward. And for the remaining part of this year, those prices of electricity are pretty much hedged and a big portion of next year's prices as well. So, of course, most likely energy prices are going up, but the impact for us is going to be rather limited.

Jani Nieminen

And I guess, one angle to that was the information we provided already that so far the increase concerning maintenance costs when we compare euros per square metre per month has been 1.9%

Niina Saarto

Okay, thanks. And then related to our rental agreements, "Can you remind how you're able to compensate CPI inflation in the rental agreements?"

Erik Hjelt

Thank you for the question. Our way is that we apply a clause in a tenant agreement which allows us to increase the rent once a year. Typically, that means that after signing, you will receive the letter 12 months has passed. So we are sending these kind of letters on monthly basis with different customers and the maximum increase concerning rent is CPI plus 5%. And all the apartments are priced as individuals, meaning one by one. We use AI in order to get the right market pricing. But it varies between CPI plus maximum 5 providing the range concerning the rent increases.

Niina Saarto

Okay. And the very last question. "You mentioned that start-ups are down. Will you also stop or slow development when the present book has been delivered to gain max value in increasing occupancy?"

Jani Nieminen

I would say that for us it's important that we are able to grow by using multiple sources. We are optimising the growth. This year, the number of new start-ups being slightly lower than last year. On the other hand, we made a portfolio acquisition. Now, looking forward a couple of months to the rest of this year, the market seems to be a bit cloudy. We are really picky. We don't want to start a project which doesn't meet our parameters. It may mean that we are making a bit less new agreements during the next couple of months.

On the other hand, as Erik provided colour, we see that the demand for build-to-sell homes is going down. And typically, when this happens, it means that construction companies must cut down their volumes at the end of the day. Once they want to continue the operations or start new projects, and then they start calling us, and that may open possibilities to start new projects with attractive pricing.

Niina Saarto

Okay. Thanks. And that was the last question. Thank you all for the questions and thank you for joining us today. Kojamo's Q3 interim report will be published on 3rd of November. Hope you can join us then as well. Thank you and have a great autumn.