Transcription Kojamo Q3 2022 / Interim report

PRESENTATION

Niina Saarto: Good morning and welcome to Kojamo's Q3 results news conference. My name is Niina Saarto and I'm responsible for investor relations. Today we have CEO Jani Nieminen and CFO Erik Hjelt who will present the third quarter's result and after their presentation, as before, we have a Q&A. We will start taking questions from the conference call line and thereafter, we take chat questions. But now, let's started. I would like to invite Jani over here, welcome.

Jani Nieminen: Thank you Niina, good morning everybody, nice to be here once again providing information and colour concerning our operations. To start by.. I think this time it's good to provide some kind of summary first and then dig a bit deeper into the numbers. It's easy to say that our Q3 figures are solid and our position is actually really strong in an uncertain market. We've been creating profitable growth and as the rental market turned positive during the summer, as we estimated, it had a positive impact as well on the occupancy during Q3 in our figures. Our financial position is strong and it actually protects us against the impacts of changes in the financial market. So for example, the average cost of debt has been quite steady because of the high hedging ratio we use. As our financing expenses are quite well hedged, these expenses will not increase in line with the market's interest increases. For the time being, we want to focus actually to ensure our strong position and we will not make any new investments. Of course, we are scanning and analyzing the market very actively and if we find something appealing enough, we are ready, willing, and able to move fast. I do believe that construction companies will have challenges in order to start new build-to-sell projects, homebuyers are getting more and more careful and actually, construction volumes, looking forward to the next 18 months, will come to a lower level.

Then moving forward to the operational environment, yes, visibility is limited. Global economy has been clouded. Financial markets have been different because of the inflation, war in Ukraine. Inflation figures are quite high. At the same time, it's good to keep in mind that here in Kojamo, the general inflation doesn't have a straight impact as inflation figures here have been now estimated to be 6,5%, actually our maintenance increase was 2,46, if we compares euros per square meter per month. So as a strong, big player, we are able to offset quite actually many parts of the inflation. On the other hand so far, actually the employment rate here in Finland has continued to increase, so that helps us a lot. Looking at the volumes, we collect the official estimates concerning residential start-ups. They are now roughly 40,000 apartments here in Finland for this year. We don't believe that those numbers are reached this year, we already had that information a couple of times this year and it remains to be seen, but most likely, the figures for example, non-subsidized block of flats will be below 20,000 apartments this year and the figures next year are lower than expected.

On the cost side, actually construction cost increases seem to be levelling off but on the other hand, as construction companies are a bit struggling in order with build-to-sell project, they would still like to have the prices of the cost increases with their product and now the market is, in that sense, a bit struggling. Home prices still increasing, modest increases there as well the rental levels throughout the country.

Then moving forward, for us it's important that actually all the megatrends creating long-term demand for rental apartments are still solid. Actually picking up a couple of figures here now, the latest statistics are in use for 2021, on the lower right hand corner, providing the information of households living in rental apartments, and actually throughout all the big cities, households living in rental apartments, or the portion of households living in rental apartments, has been increasing once again and that's expect to continue. On the other hand, people have been wondering what's gonna happen here in Finland after COVID-19 and now the latest estimates concerning population forecasts have been provided in September, and actually the population forecast, the estimates were increased in all the major parts of Finland where Kojamo operates, so the big cities like Helsinki, Oulu, Turku, Tampere, Jyväskylä, and in the general capital region. So in that sense, the outlook and megatrend creating demand is really solid and yes, we do have still an increasing number of small homes and households, one- or two-person households and that typically means that they prefer living in rental apartments.

As said, for 5 years here in Finland, the construction volumes have been on a higher level, well above 40,000 apartments, without COVID-19 kicking in, that wouldn't have been a problem but as COVID-19 kicked in the market, that created a temporary setback concerning urbanization and some challenges in the rental market. On the other hand, at the moment, construction volumes are coming down and I would assume that we are next year on the levels matching the prior levels between 2015 and 16, so somewhere 33, 36,000 apartments a year will be the start-ups next year.

Moving forward to our figures, as said, we did make a solid performance. Our numbers are strong, we created profitable growth. It seems actually a bit stronger numbers than expected by others. Our total revenue increased by 4.6%, net rental income increased 5.5% and funds from the operations increased 4.8%. A couple of details from there. If we think about the net rental income and a strong increase there, on the other hand, yes there was increases concerning maintenance. The total maintenance increase was 4.4 million euros. A couple of details there: most impacts creating cost increases were electricity and property taxes. On the other hand, we were to create some savings concerning repairs. Fair value of investment properties today 8.9 billion euros. Of course we've been creating growth by investing in new homes, in new buildings, that's visible there. Cross investments 16.5 million. Actually now this year quite a nice balance there. In the big picture, half of the cross investments are new development projects and half of the investments are acquisitions this year. Profit excluding changes in fair value 137.7 million euros, there the increase was 4.4% and then, profit before taxes including the positive changes in fair value, self investment properties, 248.6 million euros. A really good strong number there and then it's, on the other hand, good to keep in mind that this year the positive impacts in fair value have been mostly development gains as we were completing projects. Last year, there was a bigger positive impact because of changes in those profit requirements.

We still have more than 2,000 apartments under construction. All the projects are proceeding in a normal manner, they are fixed price projects, turnkey projects, no problems there. It's been quite an active year. We've been completing 1,100 apartments to the rental market. We've been quite successful there with new buildings and as said, now for the time being, we are not investing in new projects but on the other hand, we know that the existing project pipeline is still quite strong, creating growth for us. Our projects are located in excellent micro locations. Development gains are actually quite strong, roughly 30%, that either you can think creates added value as a positive impact in fair values. On the other hand, if something would change in the market, that creates protection for Kojamo. As said, this year completed already 1,100, still a bit more than 100 apartments to be completed this year. Next year, a bit more than 1,500 apartments to be completed in the Helsinki region mainly, yes we do have one project under construction in Tampere and one in Turku as well.

A couple of words concerning Lumo One, the tallest rental apartment building in Finland. I would that Lumo One is a unique case here in Finland, providing exceptional added value for our customers, combining apartments, common spaces and services in a very unique way. All the apartments have been completed now, customers have been moving in the building and actually, the occupancy has been high from the start. An important factor is that it seems our customers are really really satisfied with this type of living. Building on top of a shopping centre, basically on top of a subway line, providing a unique opportunity to use urban living services nearby, and I would say that Lumo One is, in a way, a top example of how we create actually easily the best living for our customers. Our approach is not providing only walls, ceilings and floors, but combining apartments, communal spaces, services provided physically, services provided digitally, additional services to apartments, and that way creating added value for our customers. I would call it easy, effortless living. Now if Erik would provide a bit more detailed colour, thank you.

Erik Hjelt: Thank you Jani and good morning everybody from my side as well. It's great to be discussing our solid figures and if we start with the total revenue and net rental income. So the total revenue growth here today 13.4 million euros and 7.3 million euros during Q3. Our like-for-like growth slightly improved but still negative territory 0.1%. Rent increases and water charges increases were positive at 2.2% and the occupancy rate negative 2.4. I come to this occupancy rate figures later, and other items 0.1%. So the growth mainly came from the growing property portfolio, so we acquired almost 1,000 apartments during the summer and we have completed 1,100 here to date and then of course Q4 last year completed almost 500 apartments and these are now contributing for the top line growth. Net rental income, growth was actually stronger than top line growth, 5.5%, growth was 10.9 million euros and Q3 6 million euros. Maintenance expenses year to date up 4.4 million euros and there of course it's good to know that the underlying portfolio grew during the year. The biggest items that grow during the year to date, electricity 1.4 million euros up, property taxes 0.7 million euros, heating 0.5 million euros. Other lines pretty much in line with the corresponding period. Of course inflation is an important figure but if you look at our maintenance expenses, so euros per square meter per month, the growth was less than 2.5%, and so that's a more important figure in our cost side than the inflation figures, as such. Repairs down 1.9 million euros. If you look at the change in fair value of investment properties, we kept our evaluation parameters unchanged and the reason there is pretty simple, so there's no transactions in the market completed during Q3. So the latest portfolio transaction we saw in the market late summer, they were still made in quite high prices and since there are no reference transactions in the market, we kept the valuation parameters unchanged. So the positive impact for valuation 35.8 million euros during Q3 was mainly due to the development gains, so 95% of that actually out of development gains, only one property came out of the ending restrictions so that covers the remaining part of the change in fair value of investment properties.

FFO up by 5.5 million euros, of course net rental income contributed there. ST expenses up by 2.3 million euros from the corresponding period and last year, actually we got some savings because of COVID-19 and if you look at the previous year 2020 ST expenses, we are pretty much in line with those figures. Finance expenses up by 2.3 million euros, bigger loan portfolio underlying, and then cash taxes up by 0.4 million euros.

Occupancy rate 91.7% and at the end of H1 it was 91.5% so improvement there. It's good to note that this is actually a year- to-date figure and to get a 0.2% improvement in a year to date figure that means, if you do the math, that during Q3, the occupancy rate must have been 100 basis points higher than in Q2, and in CEOs comments, the spot occupancy rate at the end of September was almost 93. So these actually are the figures behind the headline here that the occupancy rate improved in the third quarter. At the same time, the tenant turnover came down 1.8%, I think we already covered this like-for-like rental question. So investments 416 million euros, acquisition of investment properties for this portfolio acquisition during the summer and our ongoing developments covers mostly that 404 million euros. Monetization investments grew 9.6%, so repairs down 1.9 million euros and monetization investments up by 4.9 million euros.

Value of investment properties almost 8.9 million euros, acquisitions covered 404 million euros as already mentioned and profit on fair value of investment properties 110 million in the year to date. We still have 1,774 where we have restrictions regarding the valuation and those valuations will gradually end by 2024, providing 110-120 million euros uplift in values, and that's back-rated the end of restrictions. Apartments under construction 2,012, a little more than 300 million euros already invested, 192 million euros to be invested in order to complete these ongoing developments. We estimate that the investments in development projects this year will amount to 270 to 300 million euros, the total amount is slightly down because one project was postponed and pretty much intact compared to H1. As Jani mentioned, for the time being, we will not make any new investment decisions. It's slightly foggy there so we want to monitor the market and get a clearer picture of where the market is heading. We are ready when there are opportunities to come and we are able to acquire or start new developments when we find suitable projects but for the time being, we will not make any new investment decisions.

Equity ratio, loan to value, strong figures there, our loan to value below 40 and that's very strong and that gives a significant buffer against our Baa2 stable outlook rating from Moody's and we have set the target to have the loan to valu below 50 and equity ratio above 40 and our current rating is pretty much anchored into these levels. So we have a solid, strong balance and of course if you look out and the market, it's good to have buffers against these levels.

Per share figures, EPRA NRV, were very strong, 22.63 and healthy growth there as well. It's very important for us and for investors of course that our financial figures are very strong so thanks to our very high hedging ratio, 92%, and the rising interest rate didn't increase our financial costs actually 1.7, the average cost of financing including cost of derivatives, and actually during the summer it came slightly down from 1.8. We don't have any new financing needs in the short term and our cash position is very strong, so cash and cash equivalents and financial assets in total 161 million euros. On top of that we have 300 million euros committed unused credit lines in place and after the reporting period, we make a new 100 million euros loan unsecured with OP bank, 6 years maturity, so it's on top of these figures, so our cash position is very strong and no material refinancing needs in the short term. Of course that means that having a high hedging ratio and strong cash position and no maturing loans in the short term, that means that what has happened in the interest and the environment doesn't have an impact in our figures, given our position. It's not a coincidence now, so this has been the strategy of the company for a very long time already.

Strategic targets, our KPIs actually here to date in line with our strategic targets. Top line growth 4.6%, annual investments a little more than 400 million euros, profitability is there, FFO against total revenue more than 39%, and of course the whole year's property tax is already booked in Q1 so that is going to have a positive impact going forward as well, and then loan to value and equity ratio, strong figures there and net promoter score 44. So the customer interface, we are satisfied with that figure to be in line with our target. Outlook, we have slightly specified our outlook remaining part of this year, so top line growth we now estimate that is going to be between 5 and 6% and that assumption is that we estimate that like-for-like growth wise, the increase in rents and water charges more than 2%, of course remaining part of the year is quite short. Slight improvement in the occupancy, we know the completed apartments and of course this impact of the acquisitions during the summer are all included in this slightly specified top line growth. Now we estimate that FFO is going to be between 156 and 164 million euros and that of course reflects the specified top line growth estimate and the main factor for the remaining part of the year is what is the weather going to be like. So if it's going very cold and a lot of snow, of course that will increase the costs but otherwise all cost increases are included already in this specified FFO guidance. Dividend policy unchanged, so 60% of the FFO, provided that the group's equity ratio is 40% or above, and now back to Jani.

Jani Nieminen: Thank you Erik. In a way, to summarize, Kojamo has been for a long time a company with a strategy and we've been proceeding quite systematically our things and now figures are solid, stable development continued. There was a total revenue growth and as Erik provided colour, actually the net rental income growth was stronger and FFO increased as well.

The situation in the rental market, we expected that to improve by the summer. It seems that after COVID-19, it took a bit longer. For example, here in the capital region, before people started moving towards the bigger cities and towards the Helsinki region. For example, students started renting the apartments in the middle of July, typically that starts happening the third week of June but as things started happening, according to our estimates, July was good, August was good, September was good in the number of new tenant agreements. On the other hand, if we combine the estimates now that the number of new startups in the construction business are coming down for this year and next year, that actually means that starting 2024, less new supply is coming to the market and that creates a situation where we do see urbanization continuing, people moving towards the bigger cities. On the other hand, a bit less new supply coming to the market so that provides actually quite a positive outlook if we look a bit further, for the rental market. On the other hand, as I said, we've been quite systematic with our strategy whether it's operational business, whether it's investing or financing. In financing, for us it's really important that we have access to multiple sources of financing. We've been quite systematic in keeping the hedging ratio at a high level and now we are really happy that our balance sheet is strong. We still have access to different sources of financing and as the hedging ratio is high, there are no impacts in our interest levels so far and looking forward, as Erik provided colour, no new time big financial needs. At this point I would like to thank you and let's move to Q&A.

Niina Saarto: Thank you Jani and thank you Erik for the presentation. We are now ready to take questions from the conference call line first.

Operator: If you wish to ask a question, please dial star 5 on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star 5 again on your telephone keypad. Please state your name and company. Please go ahead.

Svante Krokfors: Yes good morning, Svante Krokfors from Nordea, hope you can hear me.

Jani Nieminen: Yeah.

Svante Krokfors: Great. Quite a solid result and good to hear that occupancy rate is improving again, close to 93%. Obviously we can try to estimate what it is as a spot, the report, but how low was the, let's say, spot rate at the lowest during this year?

Jani Nieminen: We've been not publishing spot levels but as you mentioned, and thanks for the question Svante, you are able to calculate and get it to the right ball park. We did say that we hit the bottom during the summer.

Svante Krokfors: Thanks, and we're looking at your valuation metrics, you...

Jani Nieminen: Erik can provide additional colour there.

Erik Hjelt: So if you do the math, so based on our year to date, so you can calculate that Q3 occupancy rate was 92.1 and there was improvement obviously from Q2.

Svante Krokfors: Thanks, and in your valuation metrics, you have an assumption of roughly 97%. What kind of time frame do you expect to reach? I guess 97% is what you strive for in the long term.

Erik Hjelt: Yeah, that is good to keep in mind that the occupancy level is one aspect and that's for the next years, so long target. On the other hand, there has been an adjustment in the Helsinki region so actually all the apartments vacant are held vacant for the next 12 months, so it's handled in two aspects all the time.

Svante Krokfors: Ok thanks, and then on, for example, heating costs, I guess 99% is district heating. We have seen some differences in the raises there and is it that 0.5 million was the impact in Q3 but could you give some guidance of heating and perhaps other costs also? I mean there has been some discussion also about the property tax also going up, I guess that is only a bit more than 10 million annually but could you give some colour on the costs, especially heating?

Erik Hjelt: Yes we have this so-called district heating system here in Finland in place and district heating is provided mostly by companies owned by municipalities and it's their own pricing depending on how they produce the heat actually and they have a different way of communicating the increases in their pricing. So with some of these companies, they have sent their new pricing for the next 12 months and some companies the next three or four months so it's a mixed picture there. What we know so far is that the highest increases is around 30% and the lowest is 0, so if you try to estimate what is the average increase in heating, it's around 15, one five, percent next year. Weather plays a big role there so whether it's warm weather or cold weather is going to play a role there, and the heating is somewhere between 25, 27% of the total maintenance costs and since we have this system that we are able to increase the rents once a year sending a letting to our customers and the maximum rent increase is index plus 5%. So there's not a direct link for the increased heating costs and the rents but there is a mechanism in place that we are able to pass the cost increases to the tenants.

Svante Krokfors: Thanks and then on looking at repair expenses, they are down year-on-year even if your property portfolio has grown quite significantly so could you elaborate a bit around that?

Erik Hjelt: Since there's different ways to book things, for example German peers, they capitalize all modernization investments, they capitalize all repairs and they actually capitalize a big chunk of maintenance expenses as well so it's good to look at repairs, modernization investments together and that's how we report it in our presentation and that actually grew during the year to date so we're still taking care of our portfolio. Of course, a bigger part of the portfolio is new or renovated property so there's less to do there, less money to be spent but in general, we've still been taking care of the properties.

Svante Krokfors: Thank you and then regarding your debt portfolio, what is the availability of funding? We know what the credit market looks like but I mean you have a bond maturing next year, 200 million euros, what's your thought about that, I guess, looking at that you have increased your share of bond financing quite significantly. My assumption is that there will not be an issue in refinancing that with bank debt if the credit market remains difficult.

Erik Hjelt: For us it's always been important to have access to different sources of financing, so bond market and bank financing and local commercial paper market and this 100 million euro bank loan that we made with OP of course underlines the fact that we are able to get financing from the banks and the terms there were quite attractive. The thing is that actually we have this 160 million euros cash at the end of Q3, we made on top of that this 100 million euros loan and we have 300 million euros committed credit lines in place, we have a commercial paper program and only 30 million euros outstanding commercial papers, so based on all of these facts, we don't anticipate any difficulties whatsoever to refinance maturing loans from banks or nobody knows actually where the bond market is after 2023 but whatever the situation is there, we estimate that we are able to finance easily maturing loans and our maturing bonds from banks.

Svante Krokfors: Thanks, and then you also said that you refrain from making new investments, what needs to change before you pick that up again? Does it have more to do with the residential market or has it more to do with the credit market?

Jani Nieminen: I would say it's a combination of uncertainty and the fogginess in the market. As said, we've been estimating throughout this year that construction volumes will start coming down. Now we see that happening in the market, we see home buyers getting more and more careful and less new apartments sold for homebuyers from build-to-sell projects. So far still construction companies would love to price their products according to the increase of the cost side, we do believe that with a bit of patience, we will see some better opportunities in the market. On the other hand, of course we know that the price of new money at the moment has increased if we would tap the market and we see that the rental market has been improving a bit. Our pipeline at the moment, as said, providing a bit more than 2,000 apartments is solid for 2022 and 2023. We are in no rush to invest more at the moment. We are patient and we can wait a bit and look for a better opportunity.

Svante Krokfors: And does the fact that you refrain from making new investments, are you still open to make opportunistic acquisitions or is that also on hold?

Jani Nieminen: Always if it's attractive enough, we were able to move quite fast once COVID-19 kicked in. It's good to keep in mind that we are ready and able, when we are willing.

Svante Krokfors: Thank you and then the last question, I don't know if you want to answer it but I guess you still have the authorization of a 1 euro extra dividend. Is that still in place until the end of this year? Do you want comment on it in any way?

Jani Nieminen: I think the decision is in place now, no further comments on that.

Svante Krokfors: Ok thank you that's all from me.

Operator: Please state your name and company. Please go ahead.

Andres Toome: Hi this is Andres Toome from Green Street Advisors. My first question is about the occupancy rate. Is it fair to assume that in Helsinki, the spot occupancy in around 91% and also the sequential quarter-over-quarter increase has been around 100 basis points on the spot figure?

Erik Hjelt: So in the total portfolio, the increase quarter from Q2 to Q3 was around 100 basis points and the spot at the end of September, as mentioned in the CEO's report, was close to 93, but we haven't disclosed areal occupancy rates, spot.

Andres Toome: Ok and maybe you can perhaps give a bit of colour in terms of leasing success after September, so in October, how's that been?

Jani Nieminen: Thank you for the question, as I provided colour July was really strong, August was really strong, September was really strong and as well October seems to be quite a good one so the market has been quite positive at the moment.

Andres Toome: And then in terms of your capital allocation direction, it sounds a bit mixed in terms of just cutting back on development perhaps a bit but also being on the lookout for any sort of distressed opportunities in the market. How should we think about it in terms of where you're heading, also looking at your source of uses for 2023, they seem ok because you do have quite a lot of unutilized facilities but there's also a bigger debt maturity coming in 2024. Just looking at the share price as well, obviously the cost of capital would actually suggest that you should be selling not expanding at this stage.

Erik Hjelt: Of course all loans and bonds they mature at some point so if you look, yes we have 2025 and 2026 maturing loans as well so it's an ongoing thing in this type of business of course. For us it's important and the thinking behind all these topics we've been discussing and the reason is that we want to be in a strong position whatever happens in the interest rate environment and investment environment. We have strong buffers against whatever happens in the balance sheet side, we don't anticipate any major changes there but we have buffers and we are in a strong position. That's exactly the place we want to be and in that regard, we are totally different from many peer companies and we want to follow what happens in the market. In the long run of course we want to grow but in this type of environment, we want to be slightly on the cautious side and look where the interest rates are actually heading and what opportunities there will be in the market. So we want to be in a situation that we are able to make decisions and we are able to grab the opportunities in the market so we are not that concerned what is going to happen in 2024 in the interest rate environment. I'm old enough that I've been around in this business when the interest rates were quite high and inflation was quite high, and it's totally possible to do profitable business even in that type of environment. Of course, the shift from the low interest rate environment to the high interest rate environment may be painful for some players but given our position.. so of course if the cost of new debt is much much higher than currently, that will gradually increase your cost of financing but we have many years to offset that by increasing the rents and taking care of the costs side. So our thinking is that we want to be in a strong position, we want to keep everything in control and we want our options to be open and yes, 2024, I am confident that we are able to refinance those maturing loans and we have access to additional financing if we think that is the right time to do something and acquire something appealing.

Andres Toome: Thank you and in terms of access to the credit market, can you give a bit of colour on the facility use signed in October? What is the interest rate on that actually?

Erik Hjelt: It's 100 million euros, 6 years' maturity, unsecured and the margin there is below 2%.

Andres Toome: Thank you, that's all from my side.

Operator: As a reminder, if you wish to ask a question, please dial star 5 on your telephone keypad. The next question comes from John Vuong from Kempen. Please go ahead.

John Vuong: Hi, good morning, thanks for taking questions. Could you provide a bit more colour on your value growth? I mean yield requirements are up everywhere and rental growth still seems a bit muted in Finland so it feels a bit counterintuitive that values are up in your portfolio.

Jani Nieminen: I couldn't actually hear, hi John, throughout the question. So it was a combination of the acquisition and rental market was it?

John Vuong: Oh no sorry, it was about value growth. I mean you reported positive value growth during this quarter but looking at yield requirements everywhere, they are essentially up, looking at how other European property companies are reporting, and rental growth in Finland still seems a bit muted in residential so it all feels a bit counterintuitive to me that the values are up in your portfolio.

Jani Nieminen: Yeah, ok, thank you. As mentioned, basically 95% of the value growth, so the positive impact in changes of fair value, came from development gains. If you have ongoing projects providing development gains north of 30%, once you complete them, they will have a positive impact. So we've been making quite strong deals throughout the last years compared to the market. That's basically the story there, and then we've been increasing the rents in a normal manner throughout the last two years, so now the market is improving and occupancy is improving. Typically that will have a positive impact put together.

John Vuong: Sure but does that imply that also your like-for-like portfolio is essentially flat and not trending downwards?

Jani Nieminen: Yeah, it's good to keep in mind that like-for-like is the last 12 months against the prior 12 months, so it's not providing an immediate impact but looking forward, if positive things keep on changing, it will have a positive impact.

Erik Hjelt: And when it comes to the valuation parameters, of course it's very important to be consistent there so when we discussed about and evidenced yield compressions, so in our portfolio, and we communicated that very clearly, first we wanted to see evidence from the market that where the yields are heading and then when there was enough evidence from the market, we made the changes in yields downwards at that time. So you need to follow that same path when times change, so we don't know where the yield requirements are heading so there's no evidence in the market so far, so we need to wait and see where they are heading if they are changing.

The latest transaction we've seen in the market, late summer, the pricing was still very very high according to our view so it's important to be consistent with your parameters and then, as a general comment, of course yield requirement is only one parameter in the valuation. There is top line growth and the cost side as well and if the interest rates are high and inflation is high and especially if the inflation is going to be there, so most likely in that type of environment, the rent increases will be higher and that is going to have an impact for values as well. So it's a combination of all these things and again, of course it's clear, but it's good to keep in mind that valuation is based on 10 years cash flows discounted so you need to look at it a bit in the long run. So this is the facts behind the thinking that we didn't change our valuation parameters and of course, Jones Lang laSalle the external expert came and reported as well and they fully share our view that no changes are required when there's no evidence from the market.

John Vuong: Ok that's clear so that also implies that you're expecting the market run to move towards CPI again in, say, the coming years I assume?

Jani Nieminen: I would say, as said prior, yes he is a bit older, but I've been around for a couple of years already as well, since the mid 90s in resi-business, doing this business yield requirements well above 8%, with rent increases well above 8 or 9%, so I think in that sense, experience provides a bit wider view on things than a couple of months. We've been trying to be systematic and prudent throughout the years, whether it's financing or whether it's investments, whether it's yield requirements, and in the long run, if interest levels, inflation, keeps on a higher level, yes that will mean higher rent increases as well.

John Vuong: Ok, it's clear, thank you.

Operator: There are no more questions at this time, so I hand the conference back to the speakers.

Niina Saarto: Thank you, we do have some questions in the chat. I think most of these themes have been covered more or less but about the energy costs, can you comment how long the duration is for the electricity hedging?

Erik Hjelt: So the next 12 months pretty much 85% hedged and for the next 12 months, so after that, around 60% hedged.

Niina Saarto: Ok, clear, and maybe if you could refresh, what is the expectation for Kojamo's own starts in 2023?

Jani Nieminen: Own starts? Meaning new development projects?

Niina Saarto: New starts.

Jani Nieminen: We did have the figure how many projects already started this year, can't recall it, 437 apartments started this year already and as said, at the moment for the time being, we are not making any new investment decisions. Most probably, it's only 6 or 7 weeks left of this year so we will keep that situation. On the other hand, as said, we do have more than 2,000 apartments under construction providing growth for this year and we are completing more than 1,500 apartments next year, so that will provide growth as well.

Niina Saarto: Thanks, and final question is, how do you consider the importance of dividends versus lowering your debt?

Jani Nieminen: Dividend policy is part of the board decision-making. We've been happy with this dividend policy, it provides decent dividends for the shareholders and actually leaving 40% of the FFO inside the company to backup the growth, our financial figures are really strong. We do have a significant buffer, whether it's loan to value or equity ratio, and on the other hand, loan maturities are still quite long and hedging ratio is high, and there's no major need for new financing so we are in quite a secure spot there at the moment so we don't feel that we are in a position that we should sell something or make changes in the dividend policy because of the balance sheet proper, we don't have one.

Niina Saarto: Ok, thank you, and that was all. Thank you for the questions and thank you for joining us today. We will meet then next year, and now I wish you a lovely autumn, thank you, bye bye.