

Transcript – Kojamo Q4 2022 Interim report

February 15, 2023

00:00:03

Niina Saarto: Good morning, ladies and gentlemen. Welcome to Kojamo's full year result's news conference. My name is Niina Saarto. I'm responsible for investor relations. Our CEO Jani Nieminen and CFO Erik Hjelt will shortly present last year's figures and also give outlook for this year. After their presentation, you will have a chance to ask questions. We will take first questions from the phone line and then from the chat. Now we can start. Jani, I would like to invite you over here.

00:00:44

Jani Nieminen: Thank you, Niina. Good morning. I will start by saying it's always nice to be here providing some color concerning Kojamo operations. Today we start by providing a bit of color what's been going on last year, what's the operational environment, and what's the summary in my eyes. Then Erik, as the CFO, will provide a bit more detailed color concerning the financial development.

00:01:22

Jani Nieminen: Last year I would say, a good starting point is that we had a really strong year with our strategic targets. All the key figures are well in line with our strategic targets. Operationally, our numbers are solid, and we created profitable growth. On the other hand, it's easy to say that 2022 can be seen from two standpoints. On the other hand, as COVID-19 restrictions were lifted, urbanization continued during the summer, and that had a positive impact and a positive turn in the occupancy towards the year-end.

00:02:10

Jani Nieminen: On the other hand, of course, Russian invasion to Ukraine has had a negative impact to the operational environment. Inflation has been increasing, interest levels have been increasing, and that has been impacting the operation. As we've been saying, we have been stopping, temporarily, our new investments. On the other hand, this new environment had as well an impact on our valuation of investment properties.

00:02:39

Jani Nieminen: There it's good to keep in mind that actually, it's now based on environmental factors, not actual deals done in the market. In this environment, it's been really a positive and important thing that our balance sheet is strong. We have been using all the time multiple sources for financing. Our hedging ratio has been high, and because of that, the impact of interest levels increasing has been really limited.

00:03:17

Jani Nieminen: Then moving forward to the operational environment, it is to say that the big outlook in the global economy, at the moment, is bleak and cloudy. Mild recession might come. On the other hand, here in Finland, it's good to keep in mind that, on the other hand, we see a really low consumer confidence. On the other hand, still the employment situation remains really good. On the other hand, I would say it's good to keep in mind that typically when consumer confidence goes down, it has a really quick impact to housing sales, so on

owner occupied market and sooner or later a positive impact towards rental homes and rental demand.

00:04:20

Jani Nieminen: If we look at the industry key figures, residential start up, there has been a rapid stopping in the market. They've been sharply going down the number of new startups. Still, no exact figure from last year, but I would say clearly below 40,000 apartments have been started last year. Official estimates still for this year for residential startups 36,000 apartments. I would be surprised if the first number will not be two, so clearly below 30,000 apartments here in Finland will be started this year. Of course, that will have an impact towards the coming supply starting 2024.

00:05:16

Jani Nieminen: Construction increases, cost increases have been leveling off. Of course, there are some materials still increasing like concrete. On the other hand, sharply falling volume should and will impact this material cost and bring the construction costs down, but as we've been seeing in the market, Kojamo is not investing in new construction cases. Neither are the construction companies actually starting any build-to-sell projects.

00:05:56

Jani Nieminen: Operational environment, we've been saying all the time throughout COVID 19 that we see a temporary impact towards urbanization. Starting last year during the summer, we have seen that urbanization is continuing, and according to the latest estimates, the biggest cities had a positive net migration. The top 10 cities which grew last year through net migration were the places where Kojamo has rental apartments and where Kojamo invests. Capital region, they're the biggest growing part of Finland, and Turku and Tampere as well.

00:06:46

Jani Nieminen: Mega trend is still valid, urbanization creating long term demand in the market. On the other hand, we do see still an increasing number of small households, meaning one and two person households, and they tend to typically live in rental apartments. Even though there are not the latest statistics concerning 2022, it's been the same trend throughout the last 10 years that the portion of households living in rental apartments have been increasing every year in the biggest cities.

00:07:23

Jani Nieminen: It's good to keep in mind that even though people tend to think that Finland is an owner occupied homes country. In cities like Helsinki, Turku and Tampere, actually more households live in rental apartments than in owner occupied homes.

00:07:44

Jani Nieminen: As I said, urbanization, I'm talking about page seven, urbanization started to continue. I checked out the latest estimate from Statistics Finland. The pure net migration in Helsinki-Vantaa-Espoo last year was 15,600 people. The population growth has been bigger. Residential startup volumes have been coming down and actually will decrease this year. If we look at the chart on the bottom left hand corner, I tend to believe that we are going 10 years back in the time, meeting the volumes of 2013 or 2014, and that will have an impact in the residential market starting 2024. A really limited new supply coming to the market

starting 2024. That will of course create the possibility to increase the rents as the demand is growing and the supply is going down sharply in the market.

00:09:05

Jani Nieminen: Home buyers have been really careful. According to the market information, it is down 80 percent, so basically construction companies don't have the capability to start up any build-to-sell projects. Home buyers are really careful. They either stay put in their current home, but now the interest levels are increasing. On the other hand, the owner of occupied buildings, the maintenance increases are facing the inhabitants during this spring, and that will create pressure in owner occupied apartments. In that sense, rental apartments are becoming more and more competitive.

00:09:54

Jani Nieminen: As I said, our operational key figures were strong. We were able to create total revenue growth by 5.5 percent, ending up to 430 million. That's a combination of three aspects. At the end of 2022, we were able to create positive like-for-like growth. We made an acquisition of 1,000 apartments roughly last year. Then, of course, we've been completing new apartments both last year and 2021, and apartments completed 2021 have been providing revenues the full year last year. Then close to 1,400 apartments completed last year created revenue growth.

00:10:46

Jani Nieminen: That provided a positive starting point for the net rental income. The increase was 6.8 percent. Profitable growth if we compare net rental margins 2022, it was 67.8, as the comparison year was 67 percent. Some aspects there, maintenance, cost increases there because of the electricity prices. There the impact was 1.4 million euros, then heating 1.3 million euros, increase property taxes a bit more than half a million euros, and then some cost savings concerning repairs. Then funds from operations, we were able to increase by five percent. Of course, we do have a slightly bigger loan portfolio, for example, there.

00:11:50

Jani Nieminen: The record high gross investments, 501 million euros. It's a combination of new development projects that provided investments of 270 million euros. Then quite a large acquisition after some years, we were able to find a portfolio matching our parameters. Then modernization investments. These are the three topics there.

00:12:18

Jani Nieminen: Fair value of investment property is now 8.2 billion euros. There is a positive impact because of the gross investments of 500 million euros. On the other hand, because of the inflation and interest level environment, there was a yield requirement change in the valuation and that created a negative impact of 682 million euros. That's how we ended up with 8.2 billion euros. Profit excluding changes in value, strong performance there, 182 million euros, improvement by 5.2 percent. Then because of these changes in value of investment properties, the profit before tax is now 500 million euros negative this year. There is good to keep in mind that a year ago the comparison figure was 1.1 billion euros positive.

00:13:31

Jani Nieminen: We've been following the market and proceeding with our strategy

consistently throughout the years. We were able to find a portfolio matching our parameters last year. We acquired 985 apartments and completed 1,300 apartments. On the other hand, we already saw during the first part of the year the change in operational environment, we were a bit more demanding with our parameters. Then as we moved towards this autumn, we stopped making new investment this year. That's why we started 477 apartments last year, and today we have under construction 1,800 apartments.

00:14:27

Jani Nieminen: Concerning those 1,800 apartments under construction, it's good to keep in mind that we still have really good development gains. They vary between 15 and 20 percent as we complete those projects. All the projects are proceeding as planned. All the projects have fixed pricing and excellent micro locations. One project in Turku, one project in Tampere, and all the other projects located here in capital region. A couple of examples of buildings we have been completing and apartments we have been completing during Q4 last year. For example, Tenderinlenkki in Pasila, close to Mall Tripla, brilliant project, Vantaan Pyhtäänkorventie close to airport, and then Ruukkupolku in Myyrmäki.

00:15:34

Jani Nieminen: For us, it's been all the time important that in our strategy, we want to be customers number one choice. We do believe in creating added value for our customers by combining apartments, common spaces and services, services provided digitally or physically. We've been providing new services; now, for example, our potential customers are helped by AI based apartment agent that helps you to find a new home, a Lumo home, according to your parameters and your wishes.

00:16:19

Jani Nieminen: On the other hand, as we see this operational model and strategy important, we made some changes in the management team and management team responsibilities. We combined a new task for Chief Experience Officer taking care of customer experience, customer insight and data, so customer understanding, creating the concept of Lumo and then combining that to marketing and communication.

00:16:55

Jani Nieminen: We will continue on creating new services for our customers and creating added value for our customers. Now as we move forward, Erik will join and provide more detail color. Here is a good example what Kojamo can provide for our customers: A building in Annankatu 5, building was originally built in 1885. Totally renovated, 2021 completed. Sad to say that today no vacant apartments there, but the building is superb. Thank you.

00:17:36

Erik Hjelt: Thank you, Jani. Good morning, everybody, from my side as well. Page 14, our topline growth was 21.6 million euros. Like-for-like rental growth turned positive during Q4 so 0.3 percent. Rents and water charges contributed 2.2 percent positive figure, occupancy rate negative 1.9 percent, and other 0.1. Last year we acquired this portfolio, in June, and that contributed four million euros for the top line last year, so the growth in top line came through pretty much thanks to those completed apartments. So 2022 completed apartments and second half of 2021 complete apartments played a role there as well.

00:18:27

Erik Hjelt: Our net rental income growth was 17.8 million euros, maintenance expenses up by 6.2 percent and main growing items there, as Jani already mentioned, electricity, heating, water and property taxes. If we look maintenance expenses, euros per square meter per month, there the growth was 2.2 percent, so the growing portfolio played a role there. Repairs were down 2.2 million euros.

00:18:59

Erik Hjelt: Page 15, if we first look at the change in fair values, looking backwards, it's good to note that during 2018 to 2021, the profit in the change in fair value on investment properties was 2.8 billion euros and now the loss 682 million euros. The net is still positive, more than 2.1 billion euros. In theory, the valuation should be made based on evidence from the market. In Finnish property market, there were no major transaction during Q4. These adapted yields in valuation is based on opinion of external valuator, and the yield expansion was 0.34 percent. Now the total portfolio yield is 3.97. That of course should reflect the current market conditions.

00:20:12

Erik Hjelt: If you look profit before taxes excluding change in fair values, it's good to note that on the finance expenses side, there was 5.4 million euros positive impact because of value changes. Then if you look FFO, up by 7.6 million euros, net rental income the biggest contributor there 17.8 million euros, SG expenses up by 5.8 million euros, finance expenses up by 4.6 million euros on FFO level, and then cash taxes down by 2.8 million euros.

00:20:51

Erik Hjelt: SG expenses, couple of notes there. One is that when we compared the figures for 2021, there were some savings because of the COVID-19. Inflation plays a role there as well. There we had some one-off items if you like. Some external experts used for some transactions, of course they added to some costs. We were testing external sales forces, that played a role there. Then we are renewing our ERP system. All this plays a role for SG expenses last year. Finance expenses up because of the bigger loan portfolio on what we have in our balance sheet.

00:21:35

Erik Hjelt: Page 16, financial occupancy rate for the whole year cumulative 92 percent at the end of September. Year-to-date figure was 91.7. If we look only Q4, there the occupancy rate was already 93 percent, and tenant turnover came down by 2.2 percent. That reflects on each side as well that the restrictions that ended last year. Like-for-like I think we already covered.

00:22:09

Erik Hjelt: Page 18, gross investments 501.6 million euros. There, of course, the acquisition plays a role and those development projects that we completed and that are still ongoing. If you look, what I see is the investments and repairs put together, the growth there is 8.3 million euros, repairs down 2.2 million euros as already mentioned, and modernization investments up by 10.6 million euros. We've been taking good care of the properties what we have in our portfolio.

00:22:46

Erik Hjelt: For the time being, we will make no new investment decisions due to the uncertainty in the market. We have a strong balance sheet, and we would like to keep it that way. Ongoing processes will be completed as agreed, and they are proceeding according to our plans.

00:23:05

Erik Hjelt: Page 19, fair value investment properties, there's these investments on the positive side and then the change in fair value on a negative side. On the right-hand side, we still have 1,680 apartments where we have restrictions regarding the valuation, and those restrictions will gradually end by 2024, and the uplift in the value will be somewhere between 100 and 110 million euros.

00:23:37

Erik Hjelt: Page 20, if you look these ongoing developments from the euro perspective, 293 million euros already invested, and 168 million euros to be invested in order to complete these ongoing developments. In total 1,804 apartments, and that includes 119 apartments under binding agreements. We estimate that the total investment in developments this year will be between 160 and 190 million euros.

00:24:15

Erik Hjelt: Page 21, equity ratio of loan to value changed slightly because of the value change in property portfolio, but we still have quite sizable buffer against our targets. The target is to have equity ratio above 40 percent, and loan to value to be below 50 percent. If you look only value perspective, so the buffer against this 50 percent loan to value level is one billion euros. As I said, we have quite sizable buffer against those levels. Strong balance sheet there.

00:24:54

Erik Hjelt: EPRA NRV reflects the result at the end of last year, 19.53 euros per share. Financing position is strong. Our cash position includes 119 million euros cash and cash equivalents, 104 million euros financial assets. On top of that, we have 300 million committed unused credit lines in place. Average cost of financing 1.9, including the cost of derivatives, and the hedging ratio is still quite high, 84 percent. We don't have any major financing needs for next 12 months, and those maturing loans are pretty much already recovered. In December, we made actual new refinancing 50 million euros with Danske Bank unsecured three years with two one-year extension options, unsecured at that point of time.

00:25:59

Erik Hjelt: Strategic KPIs page is 24, all of them are in line with our targets. Top line growth 5.5 percent. Investments more than 500 million euros. FFO against total revenue almost 39 percent loan to value equity ratio strong, as I said, and in line with our strategy, providing us a large buffer against our target levels and net promoter score strong 45.

00:26:32

Erik Hjelt: Next page, we have the outlook for 2023. We estimate that the top line growth will be between 7 and 10 percent, and we estimate that the FFO will be between 153 and 165 million euros. If you look first the top line growth outlook, to hit this seven percent, so at the low end of that range, that is covered by increased rents and water charges in normal

manner, acquisitions completed 2022, now contributing to plan for the whole year, completed developments 2022 and developments to be completed this year.

00:27:22

Erik Hjelt: Then to get closer to this upper end of that range, then requires that we will improve our occupancy, and that's of course a target for the company. FFO level, that outlook reflects the top line growth outlook. There are some assumptions. If you look at the midpoint of that FFO range, that requires to have a normal weather for 2023, to increase the maintenance expenses by 10 percent, to have repairs in line with figures in 2022, SG expenses increased according to inflation, cash taxes to remain on a current level between 11 and 13 percent and refinancing at the current pricing current interest rate environment. These are assumptions in the midpoint of that FFO target.

00:28:27

Erik Hjelt: Then one additional note that this FFO outlook doesn't take into account, the potential premature funding of the Eurobond due 2024, because we don't know the timing on that, we don't know what is the price when we will renew that one. Dividend policy, the board of directors proposes a dividend 0.39 euros per share, and that's in line with the dividend policy of the company and growth for last year's figure. At this stage, back to Jani.

00:29:17

Jani Nieminen: Thank you, Erik. As to summarize, as I said earlier, we did have operationally strong year. We were able to create profitable growth. Both the total revenue and net rental income increased as well did FFO. For us, it's been all the time important that our balance sheet is strong. As our CFO Erik said, there's a significant buffer in our LTV and equity ratio. In the market conditions, there's been a change and there was an impact concerning the valuation based on the estimated thinking concerning yield requirements.

00:30:09

Jani Nieminen: That's good to keep in mind that no transaction so no data from the market. Looking forward, in my eyes, it would mean that in order to make new changes in the valuation, that would actually need some data from the market. For the time being, we will not make any new investment decisions. Of course, all the ongoing projects are proceeding in a normal manner, and we are completing a lot of new homes this year.

00:30:44

Jani Nieminen: It's good to keep in mind that as housing startups have fallen sharply, there will be looking forward a really limited number of new supply coming to the residential market starting 2024. As the supply will go down, that will of course provide opportunities to increase the rent level throughout the market more than this year. Thank you.

00:31:24

Niina Saarto: Thank you, Jani, thank you, Erik, for the presentation. We can now start the Q&A part, and as said we can take first questions coming from the phone line. Operator, we are ready here.

00:31:41

Operator 1: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Anssi Raussi from SEB. Please go ahead.

00:32:08

Anssi Raussi: Hi guys, and thank you for the presentation. I have a few questions, and I go one by one. The first one is about your development gains. I think you mentioned that you're seeing development gains between 15 to 20 percent. How do the dynamics and numbers work here? Because I think that you have mentioned that the development yield is around four percent or so. Could you open these numbers a bit? Thanks.

00:32:40

Jani Nieminen: Thank you for the question, Anssi. Yes, I did say that development gains are still solid. They are between 15 to 20 percent. They will kick in as we complete those projects. Valuation yields are below our investment yields. The investment yields have been starting by four. We've been always saying that they are around four or above four percent. All the projects are located in Helsinki region, except one in Turku and one in Tampere. Location wise, excellent micro locations.

00:33:28

Ansi Raussi: Okay. It's fair to assume that the investment yield is above four percent. I think your capital region yield requirement was around 3.5. That's the math behind this calculation.

00:33:42

Jani Nieminen: In the ballpark. Yes.

00:33:42

Ansi Raussi: Okay. The next one about your capital allocation, what priorities you have in your capital allocation?

00:33:58

Erik Hjelt: We decided not to make any new investment decisions. The investments will be made to complete these ongoing developments. We haven't really decided when we start to make new developments, because it's still unclear where the market is heading and what opportunities there will be. To complete these ongoing developments is the biggest portion of all of our spending money this year. Modernization investments and repairs, we estimate to be pretty much in line what we saw last year's figures.

00:35:01

Operator 1: Anssi Raussi SEB your line is now unmuted. Please go ahead.

00:35:17

Anssi Raussi: Sorry. Can you hear me?

00:35:19

Operator 1: Please state your name and company. Please go ahead. Your line is now unmuted. Please go ahead. Please state your name and company. Please go ahead. The next question comes from Erik Granström from Carnegie. Please go ahead.

00:36:36

Erik Granström: Thank you very much. Can you guys hear me out there?

00:36:39

Jani Nieminen: Yes.

00:36:41

Erik Granström: Okay, good. Thank you. I don't know what happened. I was somehow disconnected, I think, or at least everything was muted. I'm sorry if I'm repeating any of the questions because I can only hear the first part of the Q&A. I would like to start off by asking: When you mentioned that external evaluators have looked at increasing interest rates rather than transactions, how do you think that they've gone about? Because it seems they've been fairly even when it comes to the capital region versus the rest of Sweden. How has their thinking been in terms of increasing the yield requirements?

00:37:24

Jani Nieminen: I do believe that they tend to think thoroughly about different aspects. Now the impact has been starting from the core regions of Helsinki area, city central Helsinki starting.

00:37:42

Erik Granström: Okay. You also believe that they will not do any additional adjustments until you see evidence in the transactions market. Is that correct?

00:37:52

Jani Nieminen: That's how I see this issue. Now there has been some adjustments, and they have been based on estimates what's going in the market but we don't have any actual data from the market. In that sense, I do believe that in order to make new changes, it would be good to have some data from the market.

00:38:21

Erik Granström: Okay. Thank you. Then regarding your guidance, you mentioned that in order to reach the upper end of the growth guidance, you would need to see some adjustments to the vacancy. I would assume then also like-for-like rental growth. What numbers do you think that you need in order to reach that 10 percent for 2023 in terms of occupancy, but also in terms of like for like rental development?

00:38:49

Erik Hjelt: If we look these items I mentioned, so increase in rents and water charges, acquisitions made in 2022, completed apartments in 2022 and developments to be completed this year, this alone should take us to the lower end of that range. Improvement in occupancy rate will then take it towards the upper end of that range.

00:39:25

Erik Granström: Exactly. In order to reach the 10 percent, what occupancy do you think that you would need?

00:39:33

Erik Hjelt: If we hit seven percent without any improvement in occupancy, I leave you to do the math.

00:39:41

Erik Granström: Okay. Fair enough. Good. So far, what have you seen in terms of rent development for this year in terms of renegotiations? When you're looking at new leases, when you actually have new tenants moving in, can you say something about what the development has been like with the start of this year?

00:40:03

Jani Nieminen: Throughout the market, we have seen, in the market, rent increases. Not as hard as the inflation because there are still quite a lot of new supply in the market because of the startups two years ago. Looking forward to the year, we are following the market really closely. I would expect that going towards the year end and especially to 2024, we will see higher rent increases throughout the market as there will be a limited number of new supply. As I said, throughout the market, rents are going up, not down.

00:40:53

Erik Granström: Okay, good. Then also, regarding your units under production, you have about 1,800. You will complete about 1,400 this year, and you started about 447, I believe, in 2022. You seem to be a little bit still restrictive in terms of starting new projects. Should we expect units under production to continue to decline in 2023 as you complete projects, but do not start new ones? Or is this something that you expect to start new projects in the second half of this year?

00:41:29

Jani Nieminen: At the moment, we don't see us starting new projects. We are not investing, at the moment, in new development projects.

00:41:38

Erik Granström: Okay. Your units under production will then fall with the completion of the ongoing production?

00:41:46

Jani Nieminen: Yes, as it stands now, but as Erik mentioned, going forward, things may change. If the market provides exceptionally good opportunities, and we see that now the market is starting to change, of course, it's then time to think whether to start investing again.

00:42:08

Erik Granström: Okay. Good. Thank you.

00:42:09

Jani Nieminen: On the other hand, that will provide us capabilities to increase the rents in a new normal manner, as we will face an era with a limited supply in the market.

00:42:24

Erik Granström: Yes, exactly. Perfect. Then my final question was a little bit of a detail, but you did mention it in the presentation. Admin expenses increased by 35 percent year-over-year in Q4 alone. You mentioned some one-offs, but also that you're implementing a new ERP system that seems to have boosted the expense of on an admin side. Is this work completed, or should we expect new ERP systems to cost you in 2023 as well? I'm just trying to figure out what admin expenses we should expect for 2023?

00:43:01

Erik Hjelt: That process is ongoing. We started last year, and it's still ongoing.

00:43:08

Erik Granström: Okay. Thank you. Those were my questions.

00:43:11

Erik Hjelt: That's included our FFO guidance, of course.

00:43:15

Erik Granström: Okay. Perfect. Thank you.

00:43:28

Operator 1: Please state your name and company. Please go ahead.

00:43:32

Svante Krokfors: This is Svante Krokfors from Nordea. I hope you can hear me this time.

00:43:40

Jani Nieminen: Yes.

00:43:43

Svante Krokfors: Thank you. Most of the questions have been answered. I was cut off for some time, but a question about the hedging ratio came down somewhat in Q4. Could you elaborate a bit on how you reason around that going forward and your hedging policy?

00:44:05

Erik Hjelt: Nothing changed really. There is a 200 million euro's bond that will mature late this year, and that's now short term. That's why it was left out of this hedging ratio calculation. Nothing changed. That's the only reason why it came slightly down. It's still quite high.

00:44:27

Svante Krokfors: Yes, it absolutely is. You mentioned that the valuation is not based on reference deals. What activity do you see among investors, especially internationally sell side?

00:44:49

Jani Nieminen: I would say that, at the moment, investors are following the market. No activities there. We have not seen any transactions completed.

00:45:05

Svante Krokfors: Okay. Thank you. That's all from me.

00:45:15

Operator 1: The next question comes from unavailable. Please go ahead.

00:45:23

Neeraj Kumar: Hello. Am I audible?

00:45:25

Jani Nieminen: Hello.

00:45:28

Neeraj Kumar: Hey, this is Neeraj from Barclays. My first question is, can you please help us understand what is your net debt to EBITDA levels?

00:45:37

Erik Hjelt: That's a little more than 14 percent at the moment. Then if you look, that figure is good to keep in mind that we still have ongoing developments. Of course, those first we invest, and then they start to generate a cash flow. That's the level.

00:45:58

Neeraj Kumar: Got it. My second question is somehow linked to this. When I look at Moody's report, the downgrade threshold of 50 percent for effective leverage, it's linked to net debt to EBITDA being less than 12X. Do you think there could be some pressure on that if the net debt to EBITDA doesn't come down, and the threshold for downgrade might be lower?

00:46:20

Erik Hjelt: The Moody's current rating for us, we would be able to with stable outlook. There are several figures and some of these figures, in our case, are very strong. The loan to value is very strong. Interest cover ratios very strong. Even the net debt to EBITDA is slightly elevated, it's just one figure. They are not looking only one figure. They're looking to the whole companies position and assets, so our balance sheet is still very strong.

00:46:59

Neeraj Kumar: Got it. A couple of more questions from my side. Do you have any LTV target in mind, given that we are in the valuations decline? The LTVs gone up from last reporting. Do you have any target on other side?

00:47:13

Erik Hjelt: We have set the target for a loan to value to be below 50 percent. That's when we decided that's actually a combination of what we think that place for equity investors and what we think that debt finance providers would like to see. As I said, our current public rating for Moody's is pretty much anchored to this level. To have loan value below 50, and we have quite sizable buffer against that level.

00:47:47

Neeraj Kumar: Got it. The last question from my side. Hello? Am I audible?

00:47:57

Jani Nieminen: Yes.

00:48:00

Erik Hjelt: We can hear you.

00:48:01

Neeraj Kumar: Hello?

00:48:06

Erik Hjelt: Can you hear us? We can hear you.

00:48:14

Jani Nieminen: Hello.

00:48:24

Operator 1: Please state your name and company. Please go ahead.

00:48:55

Operator 2: The phone number ending 899 your line is—Sorry. The next question comes from the line ending 899.

00:49:13

Operator 1: Please state your name and company. Please go ahead.

00:49:19

John Vuong: Hi. Good morning. This is John Vuong from Kempen. I have a couple of questions left. I think you mentioned that you don't know the timing on the premature refinancing of your 24 Eurobond. Given that it's maturing in June, what will still be a reasonable time frame, in your view?

00:49:40

Erik Hjelt: How we see the situation is that we would like to postpone it as long as possible, but to make it early enough. Perhaps range for that would be late summer to early next year, somewhere in between. We haven't really decided. It's a combination what we think that is beneficial for the company price wise and liquidity wise.

00:50:07

John Vuong: Late summer this year, you mean?

00:50:09

Erik Hjelt: Late summer this year at the earliest, or it can be postponed to early next year.

00:50:17

John Vuong: Okay, that's clear. Thank you. In the current environment, what do you think would be the most viable refinancing option?

00:50:28

Erik Hjelt: In our case, it's good that we have access for different sources of financing. Bank financing is available for us both secured and unsecured. Bond financing is an option for us as well. The market is open, and according to the banks, we're able to tap the market if we decided to do that. Then there are additional sources of financing as well. It's important for us to have access for all these different sources of financing and then decide which one we want to use. It's still on the drawing table what source we will use. Of course, the bond market is important for us, and we would like to refinance that from the bond market. Depending on the pricing and market conditions at that time, then we make the final decision.

00:51:25

John Vuong: That's clear. If you were to decide to move to fully secured financing, so bank loans, how much do you have left in terms of headroom, in terms of unencumbered assets, in that case?

00:51:40

Erik Hjelt: We have quite a sizable buffer there. We can go up to 45 percent, and currently, we are at nine. There's quite a sizable buffer there.

00:51:51

John Vuong: Okay, perfect. Thank you.

00:51:56

Operator 2: The next question comes from the line ending 406 after the prompt. Please go ahead.

00:52:06

Operator 1: Please state your name and company. Please go ahead.

00:52:14

Andres Toome: Hi, this is Andres Toome from Green Street Advisors. Can you hear me?

00:52:19

Jani Nieminen: We can hear you.

00:52:21

Andres Toome: Perfect. Thank you. Sorry, I had some technical issues here as well, so apologies if my questions have been asked already. I have a few questions. Firstly, just getting a bit more color around occupancy development over the quarter. You say 93 percent in the fourth quarter. I think last quarter you said spot occupancy almost 93. There's been a bit of improvement there. Would it be fair to assume about 50 basis points in the overall portfolio in the fourth quarter? I suppose in Helsinki about 100 basis points improvement? Does that jibe with your internal estimates as well?

00:53:03

Jani Nieminen: Thank you for the question. As Erik mentioned throughout Q4, the occupancy was in a level of 93 percent throughout the portfolio.

00:53:20

Andres Toome: Any color on the improvement of spot occupancy over the quarter?

00:53:24

Jani Nieminen: We have not been providing that information. The cumulative occupancy at the end of Q3 was 91.7, and now at the end of the year, the cumulative number was 92 percent, and the last quarter there was 93.

00:53:43

Erik Hjelt: If you want to play with the figures and combine this information we're given. The cumulative at the end of last year was 92, and the cumulative at the end of September was 91.7. That we say that the Q4 figure was 93. If you do the math, that means improvement of 90 basis points from Q3 to Q4.

00:54:16

Andres Toome: Got it. Understood. Then maybe a bit more color on the rental market as well. How are you seeing the leasing momentum in the fourth quarter and also at the start of this year? Are there signs of material improvement or is it slowly improving?

00:54:35

Jani Nieminen: As I mentioned, at the moment, there is still supply in the market. It will come down towards the year end, and starting 2024, a really limited number of supply in the market. The rental market has been okay the last part of last year. At the moment, urbanization is continuing creating demand for rental apartments. What could provide a bigger impact is people living in owner occupied apartments facing challenges. We already see that housing trade has been coming down severely. As I mentioned, typically when consumer confidence goes down, that has a fast impact in housing trade. Home buyers stop buying homes and then sooner or later, that provides more demand for rental apartments.

00:55:47

Andres Toome: Thank you. One more question around this capital allocation and thinking about balance sheet management. Obviously, there's some refinancings that are coming

due. Market rates for at least unsecured bonds seem to be north of five percent. How are you thinking about that refinancing activity versus perhaps trying to sell some portfolios instead? How does that play out in your strategy?

00:56:20

Erik Hjelt: As already discussed, we have a strong balance sheet, and we have a quite sizable buffer against our targets. What comes the loan to value and other key KPIs as well. We don't have to sell anything. Now we have taken the action that we decided not to make any new investment decision and to keep the balance sheet strong, and later perhaps, tap the opportunities available in the market. We don't have to sell anything, and we have quite sizable buffers, and we have a strong balance sheet.

00:57:00

Erik Hjelt: The refinancing that's what this type of companies do every year pretty much going forward. Of course, the price of the new financing at this stage is clearly higher than what we have on average in our portfolio. Given the balanced maturity structure, nothing happens overnight. Even if the next euro bond will be higher than the pricing, there will be higher than what we have in expiring ones, then of course that has a limit. Of course, it has an impact for financing expenses point of view but the impact is not that huge given it's just a little more than 10 percent of the total loan portfolio.

00:57:55

Andres Toome: Understood. I guess my point is, from an earnings perspective, the financing rate of more than five percent versus, let's say, you're saying Helsinki residential at three and a half percent net initial yield, that is implying negative leverage. Wouldn't disposing be better option for earnings from that perspective?

00:58:17

Erik Hjelt: Actually, we are very pleased with our strategy, and we've been following that over the years. The idea is to provide profitable growth and to enhance the return on equity. Of course, we've been using leverage as well, and we are in a strong position. That's good to be if the operating environment is like it's today. We are monitoring the market. It depends whether the yields in the market will end when we see the evidence from the market. It comes to a question where the rents go if the inflation will remain high. We are able to increase the rents in the future more than what we've been doing.

00:59:02

Erik Hjelt: Then nobody really knows what is going to be the price of the new financing next until 12 or 24 for a month. Central banks are quite hawkish, but the market seems not to entirely believe what they are saying. Yes, we are in a good position, strong position, and we are monitoring the market and operating environment and then later make decision what is the right actions to take. At this stage, we are not forced and we are not willing to sell anything because of just selling something.

00:59:39

Jani Nieminen: Just to add there, as Erik mentioned, Kojamo has been all the time important that we are consistent with our strategy. We don't jump up and down because of some circumstances changing for half a year or for one year. We didn't bring down our investment parameters even though we saw yield compression in the market. We didn't leverage more.

We kept the hedging ratio high, and because of that, we still have strong development against a strong balance sheet.

01:00:18

Jani Nieminen: As Erik has been mentioning, we've been around for many years already, me and Erik. Real estate business can be done successfully in different circumstances when you are consistent. We are following the market and looking forward. It may happen that money is a bit more expensive, but as I said, the supply in the market is coming down and rent increases are higher in the future.

01:00:51

Andres Toome: Understood. Thank you very much.

01:00:57

Operator 2: Our next question then comes from the line ending 981. After the prompt, your mic will be opened.

01:01:11

Operator 1: Please state your name and company. Please go ahead.

01:01:16

Paul Gorrie: Hi there. This is Paul Gorrie from Threadneedle Capital. Just checking in. You guys can hear me okay?

01:01:21

Jani Nieminen: We can hear you. Thank you.

01:01:23

Paul Gorrie: Okay, great. Thanks. A couple more from me if that's okay. The first one on the valuations and you've said that it was an adjustment to the interest rates rather than transactional evidence. I just wanted to check firstly on the amount of external valuation this quarter versus last quarter, and assuming that no adjustment to the yield was made in Q3 by the valuers, and it's all come through in Q4. Then alongside that question, SATO put out its results with a much smaller decline. I think it was minus one percent for the fourth quarter. Just wondering if you had any comments on the large differential between those two.

01:02:11

Erik Hjelt: Average valuation yield went up by 34 basis points at the end of Q4.

01:02:25

Paul Gorrie: I appreciate that. Sorry, you said that in the statement, but the question is more the difference of this versus Q3. Was there a change in the properties that are externally valued?

01:02:40

Erik Hjelt: We didn't change the yield requirements at the end of Q3.

01:02:45

Paul Gorrie: Okay, but the same number of properties were evaluated in the same way and the value is just decided in Q4 to move it by 34 basis points, that's what you're saying. Hello?

01:03:02

Jani Nieminen: Yes. We can hear you.

01:03:06

Paul Gorrie: Okay. Sorry. Any comment on the differential between yourselves and SATO? I appreciate that's commenting on another company, but the gap is so large. I just wondered if you had any comments on why there would be such a big difference with a close competitor.

01:03:23

Erik Hjelt: It's slightly challenging to comment peer companies' outcome. We don't know what those guys are doing, but we know what we are doing and what our valuator is doing. There might be some reasoning because of the ownership structure or something. We don't know. It's a question that should be addressed to those guys.

01:03:56

Paul Gorrie: Sure. Okay. Yes, no problem. Then my other question was on the guidance specifically, and I think you referenced the 500 million euro bond isn't included, but there must be a level of refi included in order to get the differential of the top loans growing at seven to 10. The FFO is going to be down one percent at the midpoint. Can you just confirm is it the 200 million euro bond you've made an assumption around refinancing that's due this year? Is there other refinancing? Can you just confirm exactly what you're assuming in terms of refinancing?

01:04:40

Erik Hjelt: It's included in the FFO guidance is the refinancing of this mentioned 200 million euros bond and 150 million euros bank financing to be refinanced. These are included in the FFO guidance. The potential pre maturing refinancing of this summer 24 maturing Eurobond is not included.

01:05:06

Paul Gorrie: Okay, perfect. That's very clear. That was all my questions. Thanks with that.

01:05:18

Operator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. There are no more questions at this time. I hand the conference back to the speakers for any closing comments.

01:05:45

Niina Saarto: Okay. Thank you. We have something here in the chat not covered yet. Erik, you open up the guidance for 2023. About the revenue growth side, is there any split you can give between index increases and completed apartments, and the assumptions behind that?

01:06:09

Erik Hjelt: The acquisition part is quite easy because it's four million euros. It was four million euros for the second half of last year, so additional four million euros. That's pretty much close to one percent. Then increases in rents and water charges, we've been communicating that the increase is somewhere between 2.1 and 2.45 percent. The remaining is then split between those apartments completed already last year, and those apartments to be completed this year. Not exactly even, but pretty close to that.

01:06:52

Niina Saarto: Okay. Then we already discussed capital allocation, but there was some

technical issues with the line. Can you repeat how you think of your acquisitions going forward? Are you still looking for something to acquire if once in a lifetime situation comes in front of you?

01:07:20

Jani Nieminen: Maybe I take that one. As mentioned, at the moment, we don't make any new investments, but never say never. If once in a lifetime opportunity kicks in, then we have to think about it.

01:07:38

Niina Saarto: I see.

01:07:40

Jani Nieminen: Typically, always as, if something is appealing enough, yes, of course we will move forward.

01:07:47

Niina Saarto: About the sale side, it was discussed that the company is not or doesn't need to sell anything. Is there any progress in divesting the non-core apartment portfolio?

01:08:04

Jani Nieminen: At the moment, we have not been active there. We don't see the market as attractive in that sense. We don't have any reason why we must sell those apartments or that portion of the portfolio. Of course I will answer the phone if somebody calls me and wants to pay a lot of money, but no activities there.

01:08:36

Niina Saarto: Thank you and thanks for the excellent questions. That was the final one. Our Q1 report will be out on the 11th of May. We hope you can join us then. I wish you all a wonderful day. Thank you. Bye, bye.