Transcript – Kojamo Q1 2023 Interim report

May 11, 2023

Niina Saarto: Good afternoon, ladies and gentlemen, and welcome to Kojamo Q1 results news conference. My name is Niina Sato. I'm Investor Relations Director. Today's presenters are familiar faces. We have Jani Nieminen, our CEO, as well as Erik Hjelt, CFO, who will tell you shortly how the year has started for the company. After the presentation, there is a chance to ask questions. First, we will take questions from the live audience here in the room and then from the other participants. If you want to ask a question, please push the hand sign on the right corner of the screen, you will be put in the queue, and when it's your turn to ask a question, please unmute yourself. Let's move on. First, I would like to invite Jani over here. Thank you.

Jani Nieminen: Thank you, Nina. Good afternoon on my behalf as well. Nice to be here again, providing some color on what's going on here in Finland and in Kojamo of course, especially. The agenda is a normal one. I'm providing a summary of what's been going on in January to March. Then our CFO Erik Hjelt will provide a bit deeper color concerning the financial development, and then we wrap things up as a summary. We will move then to Q&A. A starting point, of course, is that the year has started along with our expectations. No big surprises anywhere. Total revenue and rental income grew as we expected. Occupancy rate improved compared to the comparison period as well, compared to last year, whole year figure. It's good to understand that there's always some seasonality concerning the occupancy. Typically, in the industry, occupancy goes down towards the summer and then picks up speed during the summertime, and we reach, in the industry, highest figures towards the autumn. That's the typical manner.

Jani Nieminen: Now what we have seen in the market is still supply coming to the market from existing projects. There's a competitive situation between the players in the market. On the other hand, we saw already last autumn that the number of new development projects went down severely. We did stop making new investment decisions and so have all the other players. We already see that going forward, the supply coming from new development projects completed to the market will go down at the end of this year, and the supply-demand balance will be totally different going to year 2024. At the same time, as said, our occupancy was stronger than comparison period of time, and even as there is some seasonality, I'm glad to tell that we have seen the bottom. We are not going down with our occupancy today, so looking forward, I expect our occupancy to pick up positive speed. Some changes were made there.

Jani Nieminen: We've been successful in improving our housing management services. That's been impacting on two positive aspects. NPS Net Promoter Score is on the highest ever level, and we have witnessed that the tenant turnover has come down a bit. That of course helps us, and, at the moment, we are moving towards the most hectic season in rental business. In that sense, today things are looking more positive at the moment, and the further you look, the rental business looks the better. No substantial changes in fair value of investment properties. There it's important to keep in mind that we actually did make an adjustment with the valuation parameters already during Q4 last year. The impact then was minus nine percent. In my eyes, not all the players have been acting according to the market yet, but we did react already at Q4, and now no major changes there.

Jani Nieminen: In this current market environment, it is really important that our balance sheet is strong, and there we are proud. After a review period, we made a financial arrangement which actually makes us stronger both in liquidity and looking for the expiring loans. High hedging ratios still, there has been a positive impact, of course, reducing the impact of interest rates. If we look at the whole operational environment, of course, the outlook for the world economy is still uncertain. Inflation remains rapid, and central banks have continued to increase interest levels. Even though Finland's economic growth is expected to be weak, the employment situation is good, and that provides a solid base for us as a landlord. On the right-hand side, we see the official estimate. Today the official estimates concerning residential start-ups this year is 27,000. When I was here last providing information, the official estimate was 36,000 apartments to be started this year. At that point, I said that my personal view of that was that it isn’t going to happen. Today I'm saying that 27,000 apartments will not be started this year. High hopes are two and a low figure. That part of the business is going towards quite cloudy weathers. Not many residential construction projects will be started this year, and that of course provides the impact that the demand-supply balance will rapidly change next year.

Jani Nieminen: At the same time, which is kind of surprising, is that we see construction cost increases leveling off, but they are not coming down, especially since the material costs have not been coming down. That's a problem that this construction business industry has to be able to solve before they have the capabilities to start new projects. Current environment as well is impacting housing trade volumes, and the official estimates today is that prices of old block of flats will go down between 1.5 to 3 percent. I would estimate that the adjustment will be between 5 to 6 percent downwards. On the other hand, rental increases at the moment between 2 to 2.5 percent. Then looking forward moving to 2024, it will pick up speed rapidly.

Jani Nieminen: Quite a different market whether you play on selling owner occupied homes or whether you are at rental apartments business today. For us, it's very important that actually, the megatrends creating long term demand for rental apartments are valid. The big cities in Finland are growing. It took a while after COVID 19, before Helsinki region started to pick up speed in order to grow. However, that started happening during the latter part of last year, and now all the big cities are growing again. On the other hand, we still have an increasing number of small households here in Finland, meaning one or two person households, and they typically tend to rent the apartments, not to buy the apartments. One, I guess, piece of news to be told is that we are really capable to say from our data that pandemic did not change the demand for small apartments. People do rent studios and one-bedroom apartments. Here in Finland, it did not happen. Not all the people are moving towards Lapland or living in very big homes. They prefer the efficiency of smaller homes.

Jani Nieminen: As I said prior, even though Finland has been known as an owner-occupied country in the big cities, the truth is totally different. For example, in cities like Helsinki, Turku and Tampere, more households live in rental apartments than in owner-occupied apartments, and that portion of rental apartments is still increasing. Additional of what's been going on. If you combine these aspects, interest levels picking up speed going upwards, uncertainty concerning economy, and consumer confidence worrying people, these make people hesitating to buy apartments. This lack of buyers in owner-occupied markets, nothing happening. That will create pressure towards the rental market. Actually, the appeal towards our business is growing.

Jani Nieminen: During pandemic, we saw that we were in an era where construction volumes were high. Volumes to the market were completed in high numbers and, at the same time, all over a sudden, the population growth stopped and that created a temporary impact in the market. Actually, what's now happening is we are moving back towards a similar time as it was maybe ten years ago. We are moving towards an era with an undersupply and overdemand. The number of residential startups is most probably at the same level as ten years ago. Looking, for example, 2014, if not the lowest number in 15 years.

Jani Nieminen: Moving to page eight and our key figures, as said, all things have been proceeding as expected. Total revenue grew by 8.8 percent, meaning 8.7 million euros. Reasons behind that are three aspects: Of course, the completed apartments last year providing now rental income for the full year. Completed apartments this year already. Then of course the acquisition made last summer providing now turnover for the whole year. Last but not the least, the like-for-like growth, which is now positive, 2.2 percent. Net rental income grew by 4.3 percent. There it is good to know that the maintenance expenses grew by 5.8 million euros. Of course, pricing issues concerning, for example, heating, then property taxes, combination of the tax base and the bigger portfolio, and then a minor growth in repairs. Then, FFO funds from operations basically on the same level as comparison year impacted by a combination of increased maintenance and then financing.

Jani Nieminen: Fair value of investment properties today is 8.2 billion euros. No material changes there. Actually, if we compare the figure at the year-end, it grew by 46.8 million because of new development projects. Gross investments at the end of Q1, 54.9 million euros. That's basically mainly new development projects, and then 8.5 million of modernization investments. Profit excluding changes in value is 33 million. The biggest change there to the comparison year is the financing cost. The loan portfolio is a bit bigger. Profit and loss before tax is 24 million euros, and the explanation is that in the corresponding period, there was a positive impact from changes of fair values, 27.9 million euros, and this year the figure was minus 9 million euros.

Jani Nieminen: Then, taking a look at ongoing development projects, as I said, at the moment, we do not make any new investment decisions. We are carrying on with ongoing projects. They all are proceeding in a normal manner as planned. Development gains are still solid above 15 percent. Basically, 1,600 apartments are under construction, and towards the year's end after Q1, a bit more than 1,000 units to be completed. Then as we see looking to the year 2024, the number of completions is going down severely as we have not made any new investment decisions since last autumn. Actually, this will happen throughout the market that basically very limited number of new completions coming to the market starting next year. During Q1, we actually completed properties in five locations, 319 apartments. For example, two properties are located in Helsinki, one in Espoo, and one in Vantaa. Actually, good successful projects, and the occupancy is on a high level in all these projects.

Jani Nieminen: Then we wanted to provide a piece of information concerning the customer base matching the housing portfolio. If we first start taking a look at the housing portfolio, 73 percent of the housing stock is either studios or one-bedroom apartments. That's been the case throughout the years from 72.5 now 73 percent. On the other hand, if we look at our customers, it tells us the story that 76.8 percent of our tenants are households of one or two people. Then if we look at the customer base, divided by age groups, it's quite well balanced. That's the first thing to be noted. Then on the other hand, if we would calculate it in such a manner that we think that most often tenants above the age of 25 and below 65 are in a working life situation. The part of that group is close to 75 percent of our tenants, so excluding the youngest segment.

Jani Nieminen: Moving to page 12, sustainability. Sustainability has always been a big part of our daily operations. We've been proud to say that ESG is part of our DNA. We have committed to UN Sustainable Development Goals. Our target is that by 2030, our property portfolio will be carbon-free in terms of energy consumption. We now provide a couple of figures concerning ESG, and I'm happy to say that we are proceeding systematically and successfully with our aims and targets, and we've been having some good results. For example, carbon dioxide reduction, minus 8.5 percent. Net Promoter score on the highest level ever. Then on the other hand, the digital services, now 83 percent of our tenants use MyLumo services on a regular basis. We know that 90 percent as a target is demanding, it's a high target, but we now already are on a level of 83. Now Eric will provide a bit deeper color on the financials.

Erik Hjelt: Thank you Jani and good afternoon everybody from my side as well. If we first look at total revenue growth, 8.7 million euros, that's driven by like-for-like growth of 0.84. There we have a positive side. Rent and water charges increase is 2.2 percent and then a negative side occupancy rate of 1.4 percent. The portfolio acquisition last summer, that's contributed 1 million euros for the top-line growth and then the rest comes mainly from finalized developments 2022. Of course, we have completed 319 apartments already Q1 this year, but they are not contributing that much for the Q1 because they completed during the Q1, but the last year completed apartments, of course, contributing for top-line growth.

Erik Hjelt: Net rental income growth was 2.5 million euros. Maintenance expenses increased by 5.8 million euros and the biggest growth items there were hitting 2 million euro and property taxes of 2.4 million euros. Other items were quite small. If you look at maintenance expenses, euros per square meter per month, there the growth was 10.8 percent. Of course, the underlying portfolio grew during the Q1 compared to last year's Q1 figures. Then if we look at profit before tax, first, loss on fair value of investment properties is 9 million euros. There were no relevant transactions in the market during Q1, and we kept all key parameters unchanged during Q1 valuation. There were some positive figures included in that valuation, so the development gain was clearly a positive side. For process completed there, the development gain was well above 20 percent, and there was one property where the restriction ended that contributed to almost 3 million euros. Then on a negative side, some changes in cash flows, hedging, and that all put together, the loss was 9 million euros, so no major changes there.

Erik Hjelt: If you look at a profit before taxes, excluding the change in fair value of investment properties, that was negative 2 million euros, mainly driven by higher financial expenses, 4.3 million euros, but there is good to note that Q1 last year and there was an unrealized change in fair value of derivatives positive 3 million euros. On the right-hand side, we have these FFO figures, pretty much on the same level as last year's Q1 net rental income, a positive figure there, 2.5 million euros. SGA expenses pretty much unchanged. The change was only 0.4 million euros, financial expenses, 2.8 million euros growth because of the underlying portfolio, the average cost of financing stayed pretty much unchanged. Cash taxes is negative 0.3 and others 0.2 million euros.

Erik Hjelt: The occupancy rate improved slightly, as Jani mentioned, compared to Q1 last year and a whole year figure last year, and our tenant turnover came down to 1.11 percentage, a clear improvement there. I think we already covered this like-for-like rental growth. If you look, our gross investments 54.9 million euros, 50.3 million euros ongoing developments, 125 million euros to be completed this ongoing development and then 4.6 million euros modernization investments. Repairs, growth there, 0.5 million euros and modernization investments up to 3 million euros. If you then look at the value of investment properties, 8.2 billion euros, pretty much on the same level as the year-end, and as said, no significant transactions in the market, and the average valuation yield 3.97, unchanged in Q1 valuation.

Erik Hjelt: Going forward, it's good to keep in mind that there are a couple of positive items to keep in mind. One is that the development gain in these ongoing developments is still between 15 and 20 percent, and that of course has a positive impact when completed. There's going to be an uplift in properties that comes out of the restriction, 1,200 apartments, and the uplift will be between 100 and 110 million euros. Those restrictions will gradually end by 2024, this year and next year, biggest portion next year. Of course, the growing top line is going to have a positive impact on values as well. We have a strong balance sheet. We have set the target for loan to value to below 50 and equity ratio above 40. At the end of Q1, loan to value was 42.9, so quite sizable buffer against this 50 percent level. Our public rating Baa2 from Moody's is pretty much anchored to this these levels as well.

Erik Hjelt: The buffer in loan to value figure against this 50 percent level where it was a hurdle for current public rating LTV wise, is 1.1 billion euros in value of investment properties, so quite a sizable buffer there. Our financing key figures are strong. At the end of Q1, we had cash and cash equivalents plus financial assets put together 166 million euros. On top of that, we have committed unused credit facilities in place, 300 million euros. We have 250 million euros commercial paper program in place. Outstanding commercial papers at the end of Q1 was 29.8 million euros. Interest-bearing liabilities in total, a little more than 3.6 billion euros. Hedging ratio is still very high, 84 percent. Average interest rate is quite low in current circumstances, 1.9. Of course, the high hedging ratio is smoothing things for us. Average loan maturity and average interest fixed interest rate period, both three or slightly above three years.

Erik Hjelt: We are extremely happy that after the reporting period, we completed two financial agreements, one with Aktia Bank 75 million euros unsecured five years loan, another one syndicated 425 million euros secured, three years maturity, and on top of that, there are two one year extension options included in that loan. There we have six Nordic banks, our relationship banks, and we are extremely happy with both these financial arrangements. The maturity profile shown on this page is before these financial arrangements, and the idea, of course, is to use major part of these two loans to refinance existing loans. We basically don't have any additional financing needs for this year. EPRA NRV 19.23.Of course, compared to last year's figures, the fair value decrease at the end of last year played a role there, declining of EPRA NRV.

Erik Hjelt: Page 23, we have our strategic KPIs, very strong actually. The top-line growth 8.8 percent, and investments are 54.9 percent. FFO against total revenue is 26.6. It is good to keep in mind that the whole year's property taxes are already booked during Q1, and the total amount of property tax is around 41.4 million euros. Excluding that, if the property tax is allocated for the whole year, the FFO against total revenue is clearly about this 36 percent. Loan to value equity ratio is strong as already mentioned, and we are extremely happy that our Net Promoter score improved by very strong figure there.

Erik Hjelt: Our outlook for this year, we kept that unchanged. We estimate that that top-line growth is going to be between seven and ten percent, and we estimate that the FFO is going to be between 153 to 165 million euros. If you look first, the top-line growth guidance, so to be there above seven percent level, so the low end of that range, that requires that we are able to increase the rents and what charges between 2.2 and 2.5 percent that is what we've been doing, and more than half of this year's rent increases already happened. Acquisitions in 2022 are, of course, contributing there because now they are generating cash flows for whole year. Last year completed developments and developments to be completed this year. When you put these together, we are already above the seven percent level, and then on top of that is coming to the improving occupancy, and that, of course, is our plans. As Q1 figures show, we are clearly above this seven percent level.

Erik Hjelt: If we then look at the FFO guidance, that of course reflects the top-line guidance range. In the midpoint of this FFO guidance, we assume the normal weather for this year, no major price increases what comes to the maintenance expenses and the SGA expenses, repairs in line with 2022 figures and no new financing agreement arrangements this year. One note here is that this outlook is given without taking into account potential acquisitions or disposals, nor the impact of potential premature funding of the Euro bond due in 2024. That remains to be seen what is the time to refinance and what is going to be the price of that refinancing. That said, we don't need to do any additional financing arrangements this year. Dividend policy, no changes there. The 60 percent FFO paid dividends and decided yearly. Now back to Jani.

Jani Nieminen: Thank you, Eric. To summarize, I think it's easy to say that everything continued steadily. Revenue growth and net rental income grew as we estimated and expected. I'm happy that we were able to improve our daily operations in housing management, especially here in capital region, providing a positive impact with the customers impacting the Net Promoter Score. Occupancy rate developed positively. The demand for rental apartments is on the rise. Actually, if we combine the successful improvement in daily operations and a thing we did after the review period, we moved to an even, I would say, more agile and active pricing model, on a micro-location level to really understand the problems in the vacancy. That seems to be providing positive impacts only a couple of weeks ongoing project, but on a daily basis, I'm happy to say that, I can see the positive change there.

Jani Nieminen: Looking forward, expecting to have a positive impact on the occupancy, positive impact throughout this year and said the overall market going forward to 2024 will actually improve in the rental markets. Our balance sheet is strong, and liquidity has remained good and as earlier said, we are extremely happy after the arrangements we did after the review period. Thank you.

Niina Saarto: Thank you, Jani, and thank you, Eric, for the presentation. We can now jump to the Q&A part. Do we have any questions from the room here? Please go ahead, Svante.

Svante Krokfors: Thank you for the presentation. Svante Krokfors from Nordea. A couple of questions. The first one is regarding the quite big supply of apartments to the market, especially Helsinki region. How do you look at how long it will take to digest that volume till the end of this year?

Jani Nieminen: I said I said we moved to a more agile, active pricing. I see now it as a temporary peak as a supply. Now, reducing the vacancy builds up capabilities to actually increase the levels for rents next year. Now I would say six to nine months still supply in the market. The biggest demand will start now and will keep on going until autumn, and then it's the right time to see what's going on with the supply in the market.

Svante Krokfors: Thank you, and then on the transaction market, no deals, obviously. But, what's your view of the interest in the market currently? Have potential buyers disappeared or is it just that the spread is too big between buyers and sellers?

Jani Nieminen: Yes, it's true that no evidence in the market of a limited number of a couple of small transactions, so no data from the market providing no reason to react. We reacted already during Q4. We follow the market. It seems that buyers are coming back to the market. Then it remains to be seen whether there's a need for some players to make fire sales. We don't have any needs at the moment to make fire sales. However, I think we will see a limited number of transactions this year. At some point, things will settle down. I've seen in this business for a long time. You're able to conduct reasonable, profitable business in different environments. It's been the uncertainty of where the rates moving. Once they settle, we will see transactions.

Svante Krokfors: Thank you, and then regarding the new credit facility, 425 million euros, could you tell a bit about the margins there? I don't think you disclosed it in the announcement. Also, a bit about the timing, how you will take it into use and so on?

Erik Hjelt: It's floating, and the margin is mid-100 basis points. The availability period in that loan agreed to be until mid-October, and we are allowed to take the loan in maximum of four installments, so it depends. We try to optimize when we really need the money, not with one goal, but not decided yet exactly when but quite long availability period of course allows us to optimize when to take the money in.

Svante Krokfors: Okay, thanks. That's very clear. Then perhaps also, the credit facility was a secured one. How do you look at unencumbered assets and secured solvency ratio? I guess in your covenants you have a 0.45 mentioned, but I guess Moody's is a bit quite stricter on that. How do you look at that?

Erik Hjelt: We still have a quite sizable buffer against these requirements by Moody's or requirements by the documentation existing financing. There's plenty of room for us to do secured financing going forward if decided to do so. For us, it's been important to have access to different sources of financing, and this is a good example that bank financing seems to be there, and banks seem to prefer secured financing. Having said that, it's good to keep in mind that we just made an agreement unsecured recently, but it's good to have that in your toolkit and we are able to do quite sizable, secured financing going forward as well.

Erik Hjelt: However, in the longer term, we would prefer, of course, unsecured financing given the requirement by Moody's and given the fact that at some point of time, we want to tap the euro bond market again, and that market typically is operating unsecured. We want to have access to that financing as well. It's good to have source of different financing and we have the capability to use secured financing going forward as well but we prefer unsecured but not decided what is going to be the next financing arrangement, whether it's going to be bank financing, point financing, or secured unsecured. However, as said, it's good to have all in your toolkit.

Svante Krokfors: Thank you, and a continuation on your 500 million euro bond maturing next year, what is your kind of timeline there? When can we start to hear something regarding that and could you tell a bit about it?

Erik Hjelt: This finance arrangement we made this week is partly used for refinancing that and of course not covering the whole, and this gives us the flexibility to optimize what is the right timing to take care of the remaining part of that bond. I would say that the earliest we would do it is late summer this year and at the latest, perhaps by the end of this year. That's quite a large range. Though, I like large ranges, but we need to look at where the market is heading and what is the optimal timing for that. By the end of this summer at the earliest but by the end of this year at the latest.

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

Niina Saarto: Seems we don't have any further questions from here, so we can start taking the other questions. If you want to ask a question, please see the hand button and click that. When you hear your name stated, you should unmute yourself and see the left-hand side on your screen.

Niina Saarto: The first question comes from John Vuong. You can now unmute your microphone.

John Vuong: Hi, good afternoon. Can you hear me?

Niina Saarto: Yes.

John Vuong: Okay, perfect, thank you. Thank you for taking my questions. Just on the operational data, I appreciate that you reported that like-for-like top-line coming in at +0.8 percent. However, the margin has also come down substantially because of the higher maintenance costs. Could you provide a bit more color on what like-for-like operating costs were or maybe even like-for-like NOI growth?

Erik Hjelt: If you look at the cost side, as mentioned, the euros per square meter per month, the growth was 10.8 percent. That pretty much represents the price increases that we've seen in the market. The biggest portion of the maintenance expenses is clearly heating. and the heating costs increased quite substantially during the Q1. These district heating providers typically send the pricing for the next 6 or 12 months. Q1, of course, the pricing has been what was decided late last year, and now the new pricing is coming in. It seems that the pricing today for the next 6 to 12 months is clearly lower than what we had at the end of last year so during Q1. That is one part going forward.

Erik Hjelt: The other thing is that of course weather plays a role there. The winter was quite mild this year. Now, the winter is behind us, and of course the remaining part of the year in our guidance is based on the midpoint of the guidance based on so-called average weather. During the summer usually, nothing big happens, but then a couple of last month of the year plays a role, what is the weather going to be like. Electricity is, of course, one big part of the story as well, and there the prices came down very much by the end of Q1. The electricity prices are going to be much lower level than what we have seen so far. Property taxes play a role there. The percentage of property taxes didn't change, but the tax authorities, take up the values used in property taxes. However, that's pretty much what you have in your books because we already booked all property taxes during Q1. The top-line growth is there very strong, and the margin is, I think, the highest costs for this year most likely are now behind us given what I just described regarding heating and electricity.

John Vuong: Okay, that's very clear, thank you. Then given the 2 to 2.5 percent guidance on rent and water charge increases, I suppose that you're happy to absorb these costs as a landlord.

Erik Hjelt: Yes, that's where we are right now, and more than half of this year's rent increased and water charge increases already happened. The biggest portion is rotating, and every month we send new pricing for a portion of the total portfolio but still, March is by far the biggest, biggest amount of customers receiving the letters. More than half of this year's increase is already taking place. As Jani mentioned, so the supply-demand balance is going to change towards the end of this year. We estimate that especially starting in 2024, we are able to increase the rents more than what we have seen in the last two or three years.

John Vuong: Okay, that's clear. Maybe moving on to the units that are getting off restrictions. You mentioned that you get gains of 100 to 110 million. Could you provide some color on what yield these assets will be repriced to?

Erik Hjelt: The yield is pretty close to the average what we have in our portfolio.

John Vuong: Okay, that's great. Thank you. That's it for my side.

Niina Saarto: The next question comes from Andres Toome. You can now unmute yourself. Andres, please unmute your microphone. Andres Toome, please unmute your microphone.

Andres Toome: Sorry, can you hear me now?

Niina Saarto: Yes, thank you.

Andres Toome: All right, sorry about that. My first question is about the 425 million secured loan you've signed. Firstly, to confirm, did you say that this is on a floating rate?

Erik Hjelt: Floating, yes.

Andres Toome: I'm just wondering, why did you decide to go on a floater? I guess you're hedging ratio then as a result will come down to maybe more closer to 80 percent or below that.

Erik Hjelt: Typically bank loans are floating, and we have a hedging strategy that 50 to 100 percent of the loan portfolio all the times will be hedged. We used fixed loans, fixed financing, and interest-rate derivatives to keep the hedging ratio high. It's another decision by the company whether to invent to hedge that. It's the loan assets is floating by, but we are able to hedge them by using interest-rate swaps actually, and that's something we are working on. It doesn't make any sense to hedge it today when we are taking the loan in later, but so we are able to keep our hedging ratio high regardless of the fact that this is a floating loan.

Andres Toome: Then I'm just wondering also in terms of the valuation that formed the basis for this loan, did the bank do their own appraisal, and was that different from your book value estimates of these assets?

Erik Hjelt: We don't exactly know what work banks have done, but I'm convinced that they have done their own valuation as well, but in these types of agreements and arrangements, typically there's a third party and in this case being Jones Lang LaSalle, who gave the view on valuation.

Andres Toome: Okay, understood. In terms of generally looking at the banking financing market, are you seeing that LTV and ICR caps are getting tighter for new lending? Or how is the sort of criteria for banks at the moment?

Erik Hjelt: We haven't actually used secured financing for quite some time, so I can't comment on what are the loan-to-value levels, but interest coverage covenants are exactly the same as what we have in our loan arrangements.

Andres Toome: Then the final question, just trying to understand also about the rental demand in Helsinki, and you point to sort of longer-term improvement in fundamentals because supply is coming off. Just wondering, is there anything in the data that you're observing showing you that there's improvement in the short term as well in terms of demand and maybe just on the number of apartments that are available for let?

Jani Nieminen: You are, of course, able to collect data from commercial portals, which we do. Until the end of Q1, it seemed that the supply in the market was increasing, and April actually shows that the supply came a bit down throughout all the big cities. Then as said, we've been able to actually improve our processes and started a new way of active pricing in order to temporarily pick up speed with reducing vacancy. The most hectic period of year is now starting in the rental markets which will take away supply from the market. We are in a way getting ready towards the year-end to pick up speed with rent increases looking 2024, it remains to be seen whether that's possible already during the last quarter of this year.

Andres Toome: It's okay, thank you very much. That's all from me.

Niina Saarto: There are no more questions in the talkback queue.

Niina Saarto: Okay, thank you. We have some questions via chat, let's see. About rating agency, have you had any discussions with the agency and if so, have they flagged any issues or questions or are they paying special attention to some specific metrics?

Erik Hjelt: We had a management meeting with Moody's two months ago, and after that meeting, they gave the same rating, Baa2, and they changed the outlook from stable to negative. I think that was a precautious because the key figures all were in line with what our current public rating requires. Of course, in the metrics, there are several figures that looked at the total market and looked at the company as such, the brand and the portfolio. However, it looks that the key parameters they are looking today are loan-to-value, coverage ratio and net debt to EBITDA.

Niina Saarto: Thank you. Then about the valuation parameters, can you give some color? Is it still fair for your valuers to use an occupancy rate assumption of 97 percent when yours is standing at 92 percent?

Jani Nieminen: That is good to keep in mind that the parameters are for the next ten years. That's a long-term vision concerning the market. As now said, we estimate that the market will look quite different starting next year. On the other hand, it's important to keep in mind that, yes, occupancy estimate is one parameter on that calculation. On the other hand, we've been in a way cautious that all the vacant apartments in Helsinki region, capital region are kept vacant 12 months in that calculation in addition to that estimate. That kind of takes care of the short-term difference.

Niina Saarto: Okay, then we more or less discuss the new secured facility and its terms. However, the last question from here is about the occupancy rate. It's standing at 92.2 percent. Do you think that you're on track to land at the lower end of your guidance range? What does it require to reach the upper end of the range?

Jani Nieminen: Thank you for the question, I think Eric quite nicely explained our approach to the guidance, and we are above the lower end of that range without changes in the occupancy. Then, we are already above last year's figures concerning occupancy. I said that even though in this business we typically see seasonality in such a manner, that occupancy goes down for the first five or six months and then starts picking up speed. Our occupancy is no longer going down. We expect to improve the occupancy towards the year-end and get better figures throughout all the months than last year.

Niina Saarto: Okay, and it seems that we got some additional questions while discussing. If you have to book additional fair value losses in the future, and the LTV would increase, what would be the critical level to take action? Would it be 50 percent?

Erik Hjelt: Fifty percent is the level representative for current ratings of Baa2, and there we have a buffer of roughly 1.1 billion euros in values, and that's a yield requirement change 62 basis points. However, that's only 50, and then if you look where the hurdle for investment grade lies, it's somewhere between 55 and even 60. The buffer there is very, very large.

Niina Saarto: Thank you. Now maybe the final question about the new cost of debt. The average cost of debt is 1.9 percent, as mentioned here, are you able to reflect the new cost of debt, including the new facilities? Is it possible to comment on or calculate that yet?

Erik Hjelt: We are not guiding that of course, if you look at the average cost of financing going forward, the hedging ratio plays a role there. Our hedging ratio is very high, 84 percent, but it's not 100 percent. Partly, of course, the higher interest rates come through because of that. The pricing of these two transactions we made was quite attractive but of course it's much, much higher compared to what we have on average. How that impacts this year's average cost of financing depends on when we actually take the loans in. As said, the availability period is quite long. It's a combination of all these things. As said, we are not guiding the average cost of financing.

Niina Saarto: Thank you. Yet another question here. If there would be a future equity injection, have you heard from the largest shareholder, if they would be able to strengthen and support the equity injection?

Jani Nieminen: I think that's one of the questions where it's more important to have many tools in the toolkit than only one tool. I haven't had those discussions yet, but throughout the last years, it seems that all the big shareholders are keen to Kojamo and think that Kojamo is doing good business, and most often it's been about if we find something appealing enough, would we then move with equity. Then, as said, in my eyes, there are quite many options available to move if we feel that there is a need, whether it's a dividend policy, selling assets, or whatever. There's flexibility, and in my eyes, that's more important.

Niina Saarto: Okay, thank you. That was the final question. Thank you for the excellent questions. It's time to conclude today. Thank you for joining us. We'll meet next time on 17th of August when our half-year financial report is out. Until then, I wish you all a lovely summer. Thank you, bye-bye.