Transcript – Kojamo H1 2023 Half-Year Financial Result

August 17, 2023

Niina Saarto: Good morning. Welcome to Kojamo's half-year results news conference. I'm Niina Saarto, Treasury and Investor relations director. CEO Jani Nieminen and CFO Erik Hjelt are here today to present the first six months' figures. They will also give outlook for the whole year. We have Q&A after the presentation. You can send questions via chat. Also, if you like to ask in-person, you can see a hand sign on your screen. By clicking that, you will be placed in queue. When it's your turn to speak, please remember to unmute the microphone first. Now we can start the presentation and hear what Jani Nieminen has to say. Welcome, Jani.

Jani Nieminen: Thank you, Niina. Good morning, everybody. It's time to provide again colour what's been going on here in Kojamo. Actually, today, we provide colour as well as what's going to happen in the future concerning the measures. Topics today as typically, as usual, summary of H1 this year, and then a bit deeper colour concerning the financial development, specified outlook for this year. Then we will also provide information concerning our saving programme for 2024. It is good to keep in mind that, at the moment, our operations are solid, our numbers are strong. We want to keep the credit rating as investment grade credit rating in the future. We will take proactive measures in order to maintain and secure our financial position.

Jani Nieminen: As said, a good starting point is that our operations have remained stable during H1. Although of course the financial and interest rate level market combined with inflation caused pressure towards for example maintenance cost which has been a challenging time throughout the market for all real estate operators, in that, we've been quite successful. We've been able to grow total revenue, net rental income and FFO. Our occupancy compared to comparison year is on a better level. We've been able to improve occupancy since spring. We still have active ongoing measures in order to improve the occupancy. I'm quite confident we are on the right path there. We made some financing arrangements during H1 totalling €500 million successfully. There was, of course, a positive impact due to tender offer process impacting positively our FFO.

Jani Nieminen: Moving to page five, a bit of colour concerning the operational environment. The outlook for the world economy is still uncertain and weak. Core inflation has remained high. Although we see that inflation has slowed down basically due to energy prices, here in Finland, employment is still at a good level, rising prices and interest rates reduce household spending and consumer confidence. Biggest impact in my eyes, at the moment, is for example in housing trade volumes. Home buyers are really careful. The markets do not expect interest rate cuts to start in the near future. That's something we have to consider. We are a strong company. We will remain as a strong company in the future.

Jani Nieminen: On the right-hand side, on the table, typical estimates concerning different figures. As usually, I do have a different opinion versus the official estimates concerning the number of new startups here in Finland. The official estimate has come down. It was at the beginning of the year 36,000. Then in Q1, it was 27,400. And now, it's roughly 20,000. I would be surprised to see a number of 15,000 to be started this year. Most probably it will be below that. The number of single-family homes to be started will be bigger than apartment building homes number. That will impact throughout the market. We already know that, of course, these are still apartments are completed to the market providing supply because the project started 2021 and 2022. As the number of new starts has been going down since last year, starting next year, we will see a very limited number of new supply coming to the market. That will have a positive impact towards the rental market. As said, unemployment rates here in Finland is still good. In that sense, the situation here in Finland is good.

Jani Nieminen: Official estimates concerning the home prices or rent adjustments, in my eyes, they've been too modest. Home prices are not going down between 1.5 and 3. Actually, in my eyes, already happening here in Capital region, roughly nine percent according to the data. It's a bit of a probably a coincidence, but we did adjust our values by nine percent at the end of last year without the transaction data from the market. And now, it seems that the market has been roughly eight to nine percent down. On page six, the basic information, it's still good to keep in mind that the megatrends are valid, creating long-term demand for rental apartments, basically for homes here in Finland. Urbanization is continuing. All the big cities here in Finland are growing, especially capital region. We do have an increasing number of small households, one and two-person households. Typically, those households are looking after a rental apartment, not an owner-occupied apartment.

Jani Nieminen: At the same time, we see that home buyers are more careful choosing instead to rent the apartment, and not to buy. Amount of households living in rental apartments increasing in all the big cities. This data is always a bit lagging behind. Throughout the last decade, we have seen an increasing number in all the big cities every year when it's launched. For example, in Helsinki, Turku, and Tampere, actually, more households live in rental apartments than in owner-occupied homes. At the same time, as I said, home buyers are very careful. Housing trade volumes are muted because of the economic uncertainty, rising interest rates and increasing property charges. This supports rental apartment markets which is improving toward next year significantly.

Jani Nieminen: On page seven, still a couple of words concerning the operational environment. Residential construction volume has decreased already a year. During the first half of this year, actual decline in new start-up has been accelerating sharply.

We will have the lowest number of new start-ups throughout the last decade this year. As said, I don't believe to see 20,000 apartments to be started. That will mean that the supply-demand balance will rapidly change next year improving the rental market. Throughout the market, I would say there is pressure to increase the rents due to the interest rates increasing, property charges are increasing. And now, the supply situation will change and that will go throughout the market. And then, I don't see at the moment any indication that would mean that the construction volumes would pick up speed this year or early next year. There's no such data available. It will take a while before construction volumes will pick up speed again throughout the market.

Jani Nieminen: A couple of notes concerning the key figures on page eight, as said, I'm happy to say all the numbers are solid. Performance has been good. We've been able to improve total revenue, net rental income, funds from the operations. Total revenue growth was 8.6 percent. That's of course a combination of completed apartments on the latter part of last year during the first six months of this year, of like for like growth, which is now positive, and then of the acquisition made a year ago during the summer, close to 1,000 units that was impacting on half-year level last year €4 million and now this year €4.4 million during the first six months. That's the combination there. The net rental income improvement was seven percent. We've actually been coping really good against the inflation. The hardest part was Q1 with the energy prices.

Jani Nieminen: We still see that the maintenance expenses have been growing 7.7 million during the first six months of the year. A couple of notes there. The biggest issues there are heating of course, €2.4 million, and property taxes, €1.7 million. There, it is of course good to keep in mind that we have been completing new apartments. The volumes are bigger. FFO up 12.8 percent is a combination of the positive improvement in net rental income and the positive impact from repurchasing those maturing bonds 2024, 2025. Fair value of investment properties at the end of H1 €8.3 billion. No changes in valuation parameters. There is no data from the market to create pressure to make changes. Of course, we are following what's going on in the market. So basically, the fair value grew by €180 million. It's a combination of completing ongoing new development projects and then ending restrictions that had a positive impact of roughly €20 million.

Jani Nieminen: Gross investments during the first six months is €116 million, basically, ongoing projects to be completed. We have not been starting any new development projects. The part in gross investments concerning new development projects is €97.5 million. The rest €18.7 million is modernisation investments. Profit excluding the changes in fair value improvement there, 9.7 percent. A combination of very good net rental income improvement and then of course positive impact from financial expenses. And then at the end, profit before taxes including changes in fair value €95.7 million. There, it is good to keep in mind that now during the first six months of the year, the positive impact from changes in fair value was €5.1 million.

The corresponding period, it was €75.1 million. Basically, the difference comes from that part.

Jani Nieminen: Concerning ongoing development projects, we already provided information last autumn that we are not starting any new development projects. We are focusing on completing the ongoing development projects. For the time being, that's going to be the situation; we are not starting any new development projects. All the ongoing projects are proceeding as planned. In those development projects, our evaluation development gains are still above 15%, so 15. In that sense, we are happy those properties will be developed in high-quality micro-locations and will meet the demand nicely. Customers are still looking for same kind of apartments than prior to COVID-19. Those are proceeding as planned and will be completed. At the end of Q2, we had 1,152 apartments under construction of that during the latter part of this year, we are completing 758 apartments. It leaves roughly 400 apartments to be completed next year.

Jani Nieminen: A couple of examples of latest completions. One property in Espoo, basically close to the sports centre in Espoo Tapiola. One in city centre of Helsinki. One of the most central locations in Helsinki, Eerikinkatu 7, behind Forum. That's a conversion project where we converted office space into really high-quality rental apartments. Then, one property was completed in Tampere. The number of apartments in Espoo 80, Eerikinkatu 40 apartments, and 49 apartments was completed in Tampere. Basically, in all those completed cases, the occupancy levels are high. Eerikinkatu was totally sold out when we started marketing. Tampere is sold out. Espoo Joupinpuisto will be sold out in September.

Jani Nieminen: A couple of words concerning the housing stock and our customer base. In the big picture, it's very nicely balanced. If we first stop and think about the portfolio, 73 percent of our housing portfolio is either studios or one-bedroom apartments. On the other hand, the customer base, one and two-person households put together is 76.8 percent. Then if we look at customers divided between different age groups, it’s good to know that it's well-diversified and well-balanced. Actually, 75 percent of customers are between the ages of 26 and 65, basically working people. A couple of words concerning sustainability on page 12. As always said, sustainability has always been a part of our company DNA. We've been quite successful in all our measures. We have committed to the United Nations Sustainable Development Goals. Our target is that our property portfolio will be carbon-neutral, carbon-free by 2030 in terms of energy consumption.

Jani Nieminen: We are progressing well with our ESG targets. We are moving forward even in some areas a bit faster than planned. Carbon dioxide emissions per apartment reduction estimate for this year is 12.5 percent. It's been actually accelerating. We are, in that 2030 target, ahead of the target, a bit ahead of the schedule, so progressing there well. Net promoter score this year is good. Last year. we struggled there, but now, it's still 52. As we've been providing digital services to our customers, it's good to know that with My Lumo, a digitalized service, basically a mobile application, the utilization rate is 84, so our customers really use the service. At this point, Erik as a CFO will provide a bit more detailed colour concerning the financials.

Erik Hjelt: Thank you, Jani. Good morning, everybody, from my side as well. On page 14, if we first start a couple of notes regarding our total revenue, the total revenue growth H1 this year compared to H1 last year was €17.1 million. Top-line growth was 1.4 percent. On the positive side, we have here increases in rents and water charges two percent and on negative side occupancy 0.6 percent. Occupancy as such is improving, but in this like-for-like calculation still a negative figure. Biggest contributor for top-line growth was 2022 and 2023 completed apartments roughly €9 million, acquisition especially June last year €4.4 million and then rent increases and improving occupancy contributed €3 million for the first half this year growth.

Erik Hjelt: On the right-hand side, we have net rental income. There, the growth was €9 million. Maintenance costs increased by €7.7 million. Of course, the underlying assets are bigger, underlying portfolio is bigger than in corresponding period, but the biggest items that are growing in the maintenance expenses' part was heating at €2.4 million, property taxes €1.7 million, credit losses €1.3 million and then cleaning and waste management put together €1 million. The growth in maintenance cost during Q2 was only €2 million. Actually, the main increases came through during Q1 especially what comes with the heating. If you first look at profit before taxes and the change in fair value of investment properties, each one the gain was €5.1 million. During Q2, it was a positive €14 million. There were no relevant transactions in the market, and that's why we kept all valuation key parameters unchanged. It's good to keep in mind that already at the end of last year, actually, we increased the yield requirement by 34 basis points so that had a roughly nine percent impact for the values of the investment property as Jani mentioned.

Erik Hjelt: The main contributor for the positive fair value change during Q2 was some properties that came out of restriction and uplifting values there and then completed apartments-related development gain. Then if you look at the profit before taxes excluding the change in fair values, that was increased by €8 million. Of course, net rental income contributed there. The SGA expenses came up by €2 million, and financial expenses actually decreased by €0.9 million. On the right-hand side, we have FFO. A couple of notes there. There are some items that are different from profit before taxes, obviously. First of all, financial expenses declined €2.6 million. There we have an impact of this completed tender offer.

Erik Hjelt: Some of our finance expenses line, we booked approximately €9 million gain. Of course, that has a tax impact, so the net impact of that tender offer was €7.2 million. If you just look at interest expenses, that grew €7.1 million, given the fact that there was bigger loan portfolio, underlying portfolio. We have quite a high hedging ratio, but it's not 100. That's why some part of the loan portfolio has an impact from higher interest rates. Financial occupancy has improved, as Jani already mentioned. Tenant turnover declined 1.3 percentage points. Good trends in both angles here. I think for rental income, we already discussed. Investments, €116.3 million, mainly ongoing developments. We haven't been starting any new development projects, but these are ongoing to process. Those of course will be completed. Modernisation investments and repairs put together is €25.9 million.

Erik Hjelt: Then if we look at what we estimate to happen 2024 regarding this saving programme, so we are not making any new modernisation investments. Of course, we will finalize the ongoing modernisation investments, and those will be completed mostly by the end of this year. In 2024, there is a tail. We estimate that that is going to be between one and €2 million. Quite moderate level, given the saving programme. Value of investment properties, change in fair value is already discussed. A couple of notes there. Though on top of that, so one is that we have still a little less than 1,000 apartments where there are restrictions regarding evaluation, and those restrictions will end by the end of next year and giving in total an uplift in value of between €85 and €95 million. Most of that will come through in 2024.

Erik Hjelt: These ongoing developments, we have already invested €236.4 million and €56.5 million to be invested in order to finalize these ongoing developments. Most of that this year, less than 20 million next year. This ongoing process, those that will not be completed this year, it will be completed quite early next year. As Jani mentioned, roughly 51.5% development gain. If you do the math, that gives approximately €50 million development gain in these ongoing development funds finalized. Equity ratio and loan to value, we actually have very strong figures here. We have set a target to have equity ratio above 40 and loan to value of below 50. We have quite sizable buffer against these levels.

Erik Hjelt: A couple of notes regarding the financing. We still have unused committed credit lines in place, €300 million. We have €200 million unused, this syndicated loan we made before the summer. We are going to draw that to pay back the €200 million bond maturing in October this year. That actually means that we don't have any specific maturing loans before the remaining part of the eurobond maturing in June 2024. Our financial key figures actually quite strong. Hedging ratio 86. Average interest rate going up for obvious reasons. Hedging ratio is not 100. When we do new financing or refinancing actually, there the cost of new debt is much higher than compared to the ones we are paying back. That's why it's going up, the average interest rate, but with the moderate phase, given the balanced maturity profile what we have in our portfolio. Coverage ratio is 4.1, and average maturity as well as average fixed interest rate period a little more than three years.

Erik Hjelt: EPRA NRV are down by 12.5 percent, landed at 19.5. The biggest reason behind that change is of course the revaluation we made at the end of last year. Still quite a strong figure here. Strategic KPIs, very strong outcome there. Top-line growth is 8.6 percent. Annual investments 116.3. FFO against total revenue a little more than 37 percent. It's good to keep in mind that whole year's property taxes are already booked during Q1. The second half portion of that is €6.7 million. Loan to value equity ratio already discussed, quite sizable buffer there. Then net promoter score is 52 which is very, very strong figure, and a nice improvement there as well. Then our outlook for this year specified, not that huge changes there, but some specification anyway. Now, we estimate that the top-line growth is going to be between seven and nine percent.

Erik Hjelt: As we are proceeding and as I already explained, the drivers behind the top-line growth properties or developments completed acquisition last year, properties to be completed this year, they all contribute already the top-line. Then the improving occupancy and the increase in rents is going to contribute to this as well. If you then talk about FFO now, we estimate that FFO this year is going to be between €158 and €167 million, so slight increases there. It's good to note that now we have changed the wording as well. In this specified FFO guidance, there is now included the outcome of this tender offer, so a net positive impact €7.2 million. Then, we have pencilled in the possible refinancing, premature refinancing of this 2024 maturing eurobond, and there we have pencilled in a figure of roughly €6 million. These are now included in this specified FFO outlook. We have changed the wording accordingly. Now, back to Jani.

Jani Nieminen: Thank you, Erik. On page 26, the saving programme, I would say the most important starting point is to start where we are. Kojamo is a company hopefully known to be really systematic, proceeding with the strategy as planned. We've been growing. Today is not the right moment to grow. Our figures are solid. Total revenue growth, net rental income growth, FFO growth, the financial position, all good and solid. We will keep it in that level. For us, it's important to be proactive, to take all measures in order to keep our financial position strong, our profitability at a good level. We want to keep investment grade rating.

Jani Nieminen: We are not forced to make decisions at the moment. We are proactive, and we will take measures in order to keep us in good faith and keep the company in such a position that once things are better, we are able to move fast and react on opportunities. We are launching a saving programme and taking proactive measures in order to keep the financial position strong. It's a combination of different aspects, totalling, if we think about investments and costs next year, €43 million. Of that, the share of costs is estimated to be €18 million. A saving programme is a combination of different things. At the moment, we will not invest in new development projects as we launched the idea already last year. No changes there. In addition to that, this new saving programme is a combination of different aspects. We are not making any new modernisation investments at the moment. We are basically breathing a while, a bit postponing them. We are focusing our operations to run the existing portfolio as efficient as possible. It means that we are focusing the repairs to back up the renting and the occupancy in a more efficient manner, saving a bit of repair costs there.

Jani Nieminen: We are not in a position that we are creating more repair depth. That's a temporary situation. We are able to cope with that. We will sell properties in moderate scale during the next year. We start change negotiations with our personnel. We will find a way on how to be efficient organization to save money and focus on running the existing business as efficient as possible for the time being. In addition to that, the board has made a decision that Board of Directors will propose to the spring 2024 annual general meeting that no dividends will be paid for 2023. Actually, the saving programme includes all the important actions needed to keep the position strong. In my eyes, the path is clear. We are able to do all measures planned and company will do good.

Jani Nieminen: Before we go to the Q&A, a couple of words to summarize. As said, now we are in a situation where actually operations are solid. Operations continued to be stable. Even though the overall business environment has been challenging for all real estate operators, we've been coping that well. Still, we are proactively starting a saving programme. We are able to improve. The occupancy has been improving. Measures are ongoing in order to improve the occupancy. As we look forward, the rental market situation is expected to improve next year, as supply in the market is going down. Two reasons: people are more actively renting homes now, and new supply is not coming to the market in 2024 or 2025. It creates pressure throughout the market to increase the rents as well, more than we have seen during the last years. Of course, we've been still successful in making new financial arrangements and those had a positive impact for example in FFO. At this point, I would leave it to Niina, and we start Q&A.

Niina Saarto: Thank you, Jani, and thank you, Erik, for the presentation. I noticed that the first question is coming from the room here. Please go ahead.

Svante Krokfors: This is Svante Krokfors from Nordea. Thank you, Jani, Erik, and Niina for the presentation. First one regarding your debt situation. I would ask about the bank's debt capacity when it comes to you and also focus on the unencumbered assets ratio which has declined to 80 percent now. At the same time, you said that you want to defend your investment grade rating and also want to increase the secured financing part. Regarding for example Moody's, how they look at the unencumbered ratio, could you elaborate a bit around how you will balance this?

Erik Hjelt: Thanks for the question. If we start with the portion of secured financing. One way to look at is that in Moody's matrix, to be an investment grade rated company, you are allowed to have 20 percent of secured loans against the total assets. Today, our figures is between 10 and 11. We have quite sizable headroom there to do further secured financing. That's of course important. That's a very good position to be in Kojamo's case to have that capacity available without jeopardizing the rating. Then the appetite of these banks on board today, it seems to be there. Some banks have more appetite than others, but the appetite is there. There are additional banks available as well who are looking and who are financing companies, good companies like Kojamo in Finland.

Svante Krokfors: Have you been much in discussions with banks outside of the Nordics?

Erik Hjelt: We have discussions with those banks as well.

Svante Krokfors: Thank you. Then regarding the rent increases which now are at percent run rate. There's much discussion in Finland about Heka, for example, the Helsinki-owned company which will increase their rents by 10 to 15 percent. Their rents are on average 50% higher than yours. What kind of trajectory should we expect for rent increases in 2024 for your part?

Jani Nieminen: Thank you for the question. We noticed, and most probably because of media providing a lot of information, everybody has been noticing that Heka is increasing rents between 10 to 15 percent. That is social housing; they apply cost price principle. In my eyes, that's a good example of the cost pressure provided by inflation to real estate operators. They have to transfer the cost increases towards rents. At the end of the day, of course, those social housing rents are on the lower level here in Helsinki region but I would say in such a way that, taking in consideration the pressure created by operational charges, maintenance impacts, inflation, interest rate levels, financing situation throughout all the players in the market, individuals owning rental apartments, that creates a lot of pressure to increase the rents. On the other hand, we already know that supply will go significantly down.

Jani Nieminen: I would be quite surprised if we don't see a high rental increase next year. What's the number? That's always a tricky part. We are not providing outlook at this point. Not probably the levels Heka, but maybe half of that in the market.

Svante Krokfors: Will you be ready to sacrifice occupancy rate on the behalf of rent increase?

Jani Nieminen: That's always a balancing question. At the moment, we are focusing on the occupancy. We will improve the occupancy. Next year, we are in the situation where the occupancy is on a better level. We know that new supply is not coming to the market. Supply-demand balance situation will change. We will price our apartments according to the market. At some point, there is a turning point where it's creating an opportunity to earn more money. In that sense, you increase the rents, take in some cancellations. You know that the demand is on the market, and you reprice the product and sell it again. That's not the situation today. It's the situation 2024.

Svante Krokfors: Thank you. Regarding the transaction market, obviously not much activity there. The Kruunuasunnot transaction is a bit old news but was it so that that didn't have any impact on your valuation metrics?

Jani Nieminen: Basically, Kruunuasunnot is the only portfolio deal in the market. It's good to keep in mind the background of that portfolio. They are old garrison sites. A 25 percent of the portfolio is really non-core regions where for example Kojamo does not operate. I would say a very tricky one to guess what would be the yield requirement in those certain micro-locations, double or triple-digit. It's not comparable to our portfolio. In that sense, there was no pressure to make any changes in our valuation.

Svante Krokfors: Thank you. Then, regarding your cost savings programme, you talk about €18 million in cost. How much is modernisation, and how long will you be keeping that on hold?

Erik Hjelt: In total in this programme, we are aiming to get €43 million savings, cost side and an investment put together. We estimate that €18 million of that is going to be a cost side. Modernisation investments is not included in that figure. It's included in the whole figure. As said, we estimate that modernisation investments 2024 is going to be a tail on ongoing modernisation invest project and euro wise between €1 and €2 million.

Svante Krokfors: Looking at sustainable cost savings that you can take out from here to eternity, what kind of level are we talking about there?

Jani Nieminen: I think it's not the right timing to talk about eternity. We are talking about what's going to happen in the near future. What are our measures for 2024? We are following the market, what's going to happen in the market. We are capable to continue with that kind of measures if needed. We are capable to react fast if and when the market is improving. It's a good exercise to find the most efficient measures and ways to operate. On the other hand, of course, we are in a different atmosphere looking forward. The rental increases will be on a higher level. Interest levels will have to follow what's going to happen. I think it's a near-term project at the moment that we are focusing on.

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

Niina Saarto: Thank you. Next, we can see if we have any questions from the phone line. Please check that your microphone is unmuted before you speak.

Moderator: The next question comes from John Vuong, representing Kempen. Please go ahead and unmute your microphone.

John Vuong: Hi. Good morning, team. Thank you for taking my questions. I was to follow up on the cost savings plan. It's a rather drastic measure. Could you highlight your thoughts behind coming to this conclusion? Maybe a bit more specifically, does this relate to your decision to stop development, and perhaps what is the ideal portfolio size to be managed with the current workforce, and how do you see this after the programme?

Jani Nieminen: Thank you, John, for the question. Good morning as well. As I said at the moment, the company is strong in a good financial position. All the numbers are solid, and we like to keep it that way. We are acting proactively, making measures in order to ensure our capabilities to be a strong company. It's not the right time today to generate additional growth. That's why we are not investing in new developments. We are cutting down modernisation investments for a while, focusing on creating efficiencies. The strategy has been to grow, to create new services, to develop the way we work. That's been reflected in our organization as well. That's the reasoning why we start change negotiations with the personnel. We are focusing temporarily to run the existing portfolio in the most efficient manner. That will have an impact towards the personnel. We have released the information that at maximum 70 layoffs and 20 terminations of employment. Those two put together is a maximum of 80 people, but we just start the negotiation. That will take six weeks. It is too early to provide any deeper colour on the numbers at this point.

John Vuong: Thank you. Perhaps on the modernisation part, what is expected to be the impact on life for like rental growth by stopping modernisation? Maybe perhaps differently asked, what is your expected yield on cost on modernisation here?

Jani Nieminen: I would say that I'm not seeing the impact on life for like growth that is concerning the property is owned for the last two years, the last 12 months against the prior 12 months. We will see a positive impact from occupancy. We are always able to postpone a modernisation investment for a year or a couple of years that will not hurt. Modernisation investment project is an investment. We typically end up in a situation where we have to terminate all the existing tenant agreements. Then, we make an extensive renovation project. That's handled as an investment. We rent it again for new customers on a new rent level. In that sense, as we are not starting new modernisation investments next year, we are not terminating those tenant agreements. We are not creating empty buildings. It will have a positive impact in such a manner.

John Vuong: That's clear. Just to understand it correctly, it's more focused on assets where you see upside but not per se assets that are currently already vacant?

Jani Nieminen: Assets which are currently vacant are basically individual apartments. We will focus our repairs in such a manner that, on the other hand, we are saving money but we are making sure that we are able to improve the occupancy.

John Vuong: That's clear. Thank you. Maybe on to the letting market. Could you provide a bit more colour on your expectations here? Looking at your vacancy, it seems to be stable over the quarter. Is this a bit of a seasonality effect? Should we expect this to come down for the rest of the year?

Jani Nieminen: Provided colour during Q1 presentation that there's always seasonality in rental market. Typically, the wintertime is more quiet, and the highest season in rental market is summer. Typically, occupancies throughout the market seems to go down until the summer, and they then pick up speed. I provided already then information that since April our occupancy has not been going down. We have been making the turning point already in April. Ever since we've been able to improve that, concerning the figures after H1, we are not providing exact figures. It's not our way to provide outlooks. The number of new tenant agreements in June, July, and I would say even here in August are really strong. In June, July, a couple of times we've been making a new record throughout the history in the number of new tenant agreements. We are doing good with our measures in order to improve the occupancy.

John Vuong: That's great. Thank you. Just the last one, your report, both the FFO and the FFO excluding non-recurring costs which seem to be the same for this quarter. Could you clarify whether this means that the nine million gains from bond repurchases included in FFO and not considered a one-off, and it's therefore also included in the FFO guidance upgrade?

Erik Hjelt: The outcome of the tender is related to existing or at that time existing eurobonds and repurchase of those. It's part of the normal activities of the company when you are paying back or we are raising new money and what is the cost and what is the outcome of this. That's why it's included in the FFO. It's quite a natural way to put it there.

John Vuong: Thank you for the information.

Erik Hjelt: It's related to ongoing financing of the company.

Moderator: The next question comes from Paul Gorrie, representing CTI. Please go ahead and unmute your mic.

Paul: Hi, all. Hope you can hear me okay?

Moderator: Yes, we can.

Paul Gorrie: Oh, perfect. Thank you. Just following on actually from John's question and just to check that I understand correctly, therefore. Within the FFO guidance now, there is this I would call it one-off, but appreciate you're including it, which is the gain from buying the bonds at a discount. The first question I guess is just to check, is that the methodology you're going to be using from now onwards? Any time you do a bond tender, your FFO guidance will take into account any gain.

Erik Hjelt: That's the idea because I think one should book the same type of items in the same type of way. If we are making a new tender, we will include the outcome of the tender in FFO.

Paul Gorrie: This is just an opinion from me. I agree with John that it's one-off because you can only do it once and you only see the gain once. As long as we understand the methodology, that's fine. I think the second point just on that, I think you said the refinancing of the 2024 eurobond is now included. Is that correct?

Erik Hjelt: We included the potential refinancing of that June 2024 maturing, remaining part of that euro bond in that guidance. Correct.

Paul Gorrie: Was the impact six million?

Erik Hjelt: We pencilled in €6 million. Of course, it depends on when and how and what instrument and so on and so forth. Six million euros, we pencilled in when we calculated the new specified guidance.

Paul Gorrie: Just the six million sounds like quite a low figure. I would have expected it to be more. The current coupon on those bonds I think is it one and a half or around that area? Maybe 1.6. Presumably when they're refinanced, it'll be at kind of, I don't know, three and a half, four. Can you just explain the 6 million to me? Why is the figure so low?

Erik Hjelt: For us, it's always been important to access for different sources of financing. Especially this type of time or operating environment, it is quite good to have that option available. Our aim is to do the next refinancing from banks as a secured syndicated loan most likely. There, of course, the pricing is totally different, what you have to pay or what are the indications for bonds. It's good to keep in mind that those bond indications today are really indications because we haven't seen any primary or secondary transactions in the real estate companies - among real estate companies quite long time. We pencilled in that when we calculate it, the €6 million, it's based on that the refinancing will occur by the end of September. Whether it's going to happen or not, we don't know. The idea is to refinance the whole remaining part of that June 2024 maturing eurobond.

Paul Gorrie: That's very clear. Thank you for that. Then just one more from me which is on the dividend cut. Just to clarify, that's obviously part of protecting the investment grade rating. Again, it seems like quite a drastic step to do it now. I appreciate you want to be proactive. I think you're two notches above junk. You obviously have one-notch downgrade kind of leeway. I think the LTV trigger is probably 50. I guess my point is you're not actually that close to hitting your triggers for the downgrade. You've got one step. You've probably got two years before you'd even get considered to be junk. Why are you taking this step today?

Jani Nieminen: As I said, in our eyes, it's better to take measures when you are in a good position. When you are strong, you are not forced to do by somebody else things. We are proactive. We wanted to provide a clear story, a comprehensive package, including different measures. That includes a clear message concerning the dividend as well. Of course, that's a way to even further strengthen the company's financial position. It's part of the package.

Paul Gorrie: Perfect. That's helpful. Thanks both.

Moderator: There are no more questions in the queue.

Niina Saarto: We have some left in the chat. How has building costs developed recently? Do you see lower building costs in the near term?

Jani Nieminen: It's easy to comment in that sense that we have not been starting new development projects since last autumn. We have not been involved in competitions. Of course, we recognize that the number of started projects is next to nothing. There's high pressure for construction companies to try to sell projects for investors. They've been indicating that cost increases have been levelling off. I would say that there's a pressure to bring down the prices. In the current environment, I would say there's pressure to bring down the cost of construction work by 20 to 30 percent before investors start to operate again. That's including, of course, the price of the land and the cost of the project. That's something that construction companies will have to figure out during the next 12-18 months.

Niina Saarto: Then another topic, you mentioned that you might be selling some properties during the next 12 months. What kind of portfolio are we talking about? Is it core or non-core assets?

Jani Nieminen: No decisions have been made yet what kind of portfolio we will sell. We will follow the market closely. We have been doing that already. We are not in a position to be forced to sell. We are not selling anything today. We will follow where is appetite. We know that there is still appetite in the market towards the Finnish residential market but we have to follow and create a deeper understanding that where is the best appetite, what kind of buyers are available there, and what kind of pricing is there. During the next 12 months, we expect to see smaller-scale disposals, a couple of hundred million probably during the next year or two.

Niina Saarto: Then, with regards to the saving programme and €18 million operational cost saving, does that have effect to the development organization?

Jani Nieminen: As said, we have not been starting new developments since last autumn. That's been already impacting at the beginning of this year in that organization. We are starting change negotiations throughout the organization so all employees are included in those negotiations. Today, it's too early to provide deeper comments on separate divisions or units.

Niina Saarto: Good. Then, I think we've touched pretty much all other topics. Continuing with the dividend decision, did you have a pre-discussion with the credit rating agency before you made the decision?

Jani Nieminen: No. We like to keep matters in our own hands and keep the company strong. Then we will have discussions with a rating agency in a normal manner when there's time and place for those ones.

Niina Saarto: Thank you. Thanks. That was the final question. We will then meet on 2nd of November when Q3 report is out. I hope you can all join us then as well. Now wishing you all a very nice autumn. Thank you. Bye-bye.

Erik Hjelt: Thank you.