Transcript – Kojamo Q1 2024 Interim Report
May 8, 2024

Niina Saarto: Good afternoon and welcome. This is Kojamo's Q1 results news conference, and I'm Niina Saarto from Investor Relations. Today we have CEO Jani Nieminen and CFO Erik Hjelt presenting the first three months' figures. They will also update you on the market situation. You can send us questions via chat throughout their presentation, and in the Q&A, we also take questions from the phone lines. In case you want to ask yourself, you should click the hand sign on the screen and then just wait for your turn. Now. let's kick off the presentation with Jani Nieminen.

Jani Nieminen: Thank you, Niina, and good afternoon on my behalf as well. First, we will provide a summary concerning what's been going on during Q1. Then, CFO Erik Hjelt will provide a bit more detail colour concerning the financial development and our outlook. Then, I will cover the operational environment and the most important KPIs.

Jani Nieminen: Starting with the summary, we were able to increase total revenue, net rental income, and profit before taxes during the first quarter of the year. Occupancy increased slightly from the comparison period, and the tenant turnover remained at last year's level. It's good to know that at the same time, there are still a large number of previously started properties which have been completed to the market. That will continue still a bit, and that creates typical seasonality throughout the market. In a typical seasonality, occupancies tend to go down towards the summer, and then they pick up speed during the hectic summer period when we most likely have the highest number of new tenant agreements. That's throughout the market. Then occupancy starts to improve towards the latter part of the year. At the same time, we do know that we've been pushing rents a bit more because we know that after this completion, there will be no more new supply coming to the market. The demand-supply balance will be changing, looking forward. FFO decreased due to increase in financial expenses and maintenance expenses. One reason for maintenance expenses is the extremely cold weather during last winter. Concerning the fair value of investment properties, there are no significant changes. Basically, all the parameters remained the same. Our saving programme is proceeding as planned and there are no surprises. We are happy because all the measures have been taken, and we are achieving our targets there. As I said, our balance sheet has remained strong. Financing figures are good. The liquidity situation is very good. It's good to keep in mind that at the moment, all our maturing loans 2024-2025 are already covered.

Jani Nieminen: Moving forward to the operational environment, there's the big picture, the global picture, and then what's going on here in Finland. In the big picture, it's easy to say that the outlook for the global economy is improving. On the other hand, the Finnish economy is not expected to grow this year. At the same time, inflation has slowed down in Finland. Yes, the estimates are that growth will be existing here in Finland in 2025 again. Looking forward, it's a bit better. Outlook for this year, I'm not seeing any of the growth. The employment situation is predicted to decrease slightly. One impact is the construction business: we will see a very low number of new residential startups here in Finland, and there are no signs today that it would pick up speed. The market expects that the ECB will start rate cuts in June and Fed in autumn. It remains to be seen what's going to happen. As I said, inflation now slowed down here in Finland. Of course, the cost impact looking forward lower. The housing market is quiet. Estimates are that the prices of old blocks of flats would stay flat. It looks like they are coming slowly down, but the transactions are on the low level there. Throughout the market, estimates are that rents would pick up a bit more this year than in 2023. The official estimates are that there would be an increase this year by two percent. We've been increasing rents to a significantly higher level throughout the first period of this year, and most likely it's been impacting the occupancy improvement.

Jani Nieminen: The big picture on the rental market is still the same that all the megatrends are still valid. Urbanisation is continuing. All the big cities are growing. Especially in Helsinki and Turku regions, the population growth has been more than doubled last year. It seems to be continuing this year as well. Most of the population growth is due to immigration and that typically increases, especially the demand for rental housing. At the same time, this is backed by the data that whenever we receive new official data from all the big cities about what's the portion of households living in rental apartments, that portion is always increasing. As previously said, in cities like Helsinki, Tampere, and Turku, more than half of the households already live in rental apartments. Looking forward, population growth will continue in all the big cities. We will still have an increasing number of small households, and these put together will create long-term demand for rental homes.

Jani Nieminen: At the same time, as said, the number of residential start-ups plummeted last year, and there's no turn for the better inside yet. I do believe that volumes will stay at a quite low-level next year as well. If we look at the paragraph on page seven in the bottom right-hand corner, this year, the estimate is that only 2,000 non-subsidized blocks of flats would be started. If we compare that figure to prior years when it used to be 20,000 or about 20,000, it's only a handful of projects to be started. When I talk with the construction company CEOs, it seems to be that even that number might be a bit optimistic. Looking forward, even still today, we do have a lot of supply in the market. It seems obvious that we are heading for a shortage in the housing market during the next couple of years.

Jani Nieminen: Moving to page eight and to our key figures, as said, we were able to increase our total revenue. It's still a combination of three angles. We have been able to increase the rents, able to slightly improve the occupancy, and the third angle is the completions during last year and the first part of this year. The number of apartments has been increasing. The net rental income is EUR 60.6 million. The improvement is 1.9 percent against the comparison period. It is good to keep in mind that there was a 4.3 million increase in maintenance costs. Basically, two key elements are there, a very hard winter providing additional heating costs, a bit more than EUR 2 million, and then property tax which is a bit more than EUR 1 million increase. FFO EUR 25.5 million was impacted by increased financial expenses and this maintenance increase as well. The fair value of investment properties is EUR 8.1 billion. There are no significant changes there. Of course, two projects have been completed. There are no changes in valuation parameters. If we look at the profit loss before taxes, it's good to keep in mind that this time the change in fair value of investment properties was EUR 11 million positive. For the comparison period, it was -9 million, so it's only slight changes in valuation. As said, we did make a decision already in 2022 that we are not starting new development projects, and we are still on that path. That's very visible if we look at the gross investment figure. The saving programme is proceeding as planned. Now it's only EUR 8.4 million as total gross investments. New developments were EUR 5.3 million and modernisation investments EUR 3.2 million. Profit excluding changes in value EUR 28.3 million.

Jani Nieminen: On page nine, a couple of words concerning ongoing development projects. Today, we should say ongoing development project. We do have only one ongoing project at the moment, which will be completed at the end of June, 113 apartments. It's kind of a historical moment if I look at my career here in the company. In July, we will have no apartments under construction, and that's not typical for a company like Kojamo, but the same applies throughout the market. As said, we will most likely be heading toward a shortage looking forward. The cost of completing this remaining project is EUR 5.3 million, and as such, the project is proceeding as planned. No surprises there.

Jani Nieminen: Basically, as we are completing the last project, we are focusing on the existing portfolio. Our way to provide added value for Lumo customers is to combine apartments, common spaces, and services. Whether the services are physical or digital, it doesn't matter. It makes a combination. I'm happy to say that the Net Promoter score was 51, and today already eighty-seven percent of our customers use digital My Lumo services, so that number seems to be still increasing. Some services are basic functions, and they are always included. There are some fixed customer benefits, and there are available services as options for the customers that they use them when they will. That's how we create added value, and that's what creates the possibility to have a premium in rent levels.

Jani Nieminen: Kojamo has been always a company where we are proud to say that sustainability is a part of the company's DNA, and we are committed to the carbon-neutral energy used in our properties by 2030. We are proceeding nicely today. Since we launched the programme, already half of the reduction is done. CAGR is -14.4 percent during that period since 2019. This year already the reduction has been 13.2 percent. We are still proceeding nicely. We use only carbon-neutral electricity in all our buildings. How we think of this issue, the sustainability, and how to reach the target is a combination of four angles. It is the way we help to change the customer and consumer behaviour. On the other hand, it seems that consumer behaviour is changing throughout the world but we will help our tenants. Then, how we utilise technology, for example, our AI system in how to optimise heating and sell that data to service providers like district heating companies. Then, of course, an important role is what are our partners capable of doing. A significant impact, of course, comes from district heating service providers and then our measures, whether they are geothermal heating solutions, next zero energy buildings, or, for example, solar panels. That's the combination of how we're going to reach our targets. At this point, I would let Erik continue with the financial details. Thank you.

Erik Hjelt: Thank you, Jani, and good afternoon everybody from my side as well. Page 13, the top line growth was EUR 5.1 million. The like-for-like top-line growth was 1.6 percent. The increase in rents and water charges contributed one percent. The improving occupancy contributed 0.7 and other topics -0.1 percent. Completed apartments, meaning 2023 and the first quarter of 2024, contributed EUR 4.2 million for the top-line growth. Net rental income growth was EUR 1.1 million. The revenue growth was EUR 5.1 million positive and maintenance expenses negative EUR 4.3 million. Then the biggest negative item there compared to the comparison period was heating EUR 2.2 million because of the harsh winter here in Finland in the first quarter of this year. Property taxes accrue EUR 1.1 million, and growth of the portfolio costs EUR 0.8 million growth in maintenance expenses. Repairs were down EUR 0.3 million.

Erik Hjelt: Page 14, if we look at profit excluding the change in fair value of investment properties came down by EUR 4.7 million. Net rental income positive side EUR 1.1 million. SG&A decreased EUR 0.8 million. The financial expenses increased by EUR 5.8 million, given the fact that the new financing is more expensive than the expired one. Then, of course, the cost of financing is higher in general terms as well. On the right-hand side, if we look at FFO, net rental income again contributed EUR 1.1 million. SG&A expenses decreased EUR 0.8 million. Financial expenses on our FFO calculations grew EUR 6.3 million. The difference compared to profit before taxes is explained by the unrealized change in the fair value of derivatives. Cash taxes decreased by EUR 1.2 million.

Erik Hjelt: I think Jani already covered this topic on page 15. There is a slight increase in occupancy from the comparison period. The like-for-like rental income growth fee is already covered. Page 17, so as part of the saving programme, for the time being, we are not starting any new developments or modernisation investments. On ongoing projects, this ongoing project will be completed by the end of June, and EUR 5.3 million will be invested to complete that one. The investments during the first quarter of this year, developments EUR 7.5 million, modernisation investments EUR 0.5 million, and capitalised borrowing costs EUR 0.4 million. It's down clearly by last year and in previous years, according to our savings plan. Modernisation investments in first quarter EUR 0.5 million and repairs EUR 6.0 million are both in line with our saving programme.

Erik Hjelt: Page 18, the change in fair value of investment property is EUR 11.1 million. The improved net rental income cost EUR 7.9 million. Positive impact for the values and other items EUR 3.3 million. There are positive and negative signs. On the positive side, there were ended restrictions, causing an uplift in the values. Then of course the negative is money spent for modernisation investments and the impact of aging. The net impact positive is EUR 3.3 million. We still have 737 apartments where we have restrictions regarding the valuation, and those restrictions will end by the end of this year. An uplifting value will be between EUR 50 and EUR 70 million.

Erik Hjelt: On page 19 equity ratio, loan to value moved sideways. We still have quite a sizable buffer against this fifty percent loan-to-value level that is by Moody's hurdle for Baa2 rating. This buffer is around EUR 900 million, and that's if the only value yield changes 55 basis points in yield requirements. Page 20, as Jani already mentioned, our all loan maturities in 2024 and 2025 are covered. Our capex need is very limited in line with our saving programme, so we don't need any additional financing. Then, of course, it's a question of refinancing maturing loans and, as said, 2024 and 2025 maturing loans are all covered. In January, we issued a EUR 200 million bond in private placement mode, and in March, EUR 250 million secured term loan facility as well. EUR 425 million syndicated loan made last year was undrawn at the end of Q1. We had EUR 675 million undrawn loan facilities in place, we had EUR 94 million cash and cash equivalents and EUR 30 million financial assets. Given the fact that the capex needs are quite limited, FFO is used to pay back loans as well. If you put all these together, that means that 2024 and 2025 material loans are covered. Financial figures are very strong. The hedging ratio is 94. The average interest rate is 2.6 percent, and that's including the cost of derivatives.

Erik Hjelt: Then on page 23, our outlook is slightly specified. Now, we estimate that the top-line growth is going to be between four and seven percent. That's due to the Q1 result and how we see the operating environment. Completed apartments will contribute three percent to top-line growth compared to last year. Now we estimate that the FFO this year is going to be between EUR 152 to EUR 164 million. Of course, this range is for FFO guidance echoes the range for top-line growth, and we took slightly down both sides of the FFO guidance on the back of the elevated maintenance expenses due to the cold wind during Q1, so roughly EUR 2 million. Then, if you look what's background behind this FFO guidance, we pencilled in a four percent inflation impact for all cost items. We pencilled in the saving programme. It is proceeding as planned. With the impact of the saving programme in total, we pencilled in that 24 and 25 material loans are covered. We pencilled in that the supply-demand balance is going to improve towards the year-end. This is the background for a slightly specified outlook.

Erik Hjelt: Page 24, our strategic targets, the top-line growth is 4.7 percent. It is still quite strong, in line with our target to grow. The top line is four to five percent. Annual investments are EUR 8.4 million and that's, of course, the outcome of the decision earlier made that no developments will be started for the time being. FFO against total revenue is 22.5 percent. It's good to note that the whole year's property taxes are booked. The actual expense in Q1 is EUR 15.2 million in total. That, of course, explains why by typically the Q1 forecast, total revenue is lower than the whole year figure. Loan to value equity ratio is strong as already mentioned. Net Promoter score good result in 51 there as well. Now back to Jani.

Jani Nieminen: Thank you. Erik. In summary, total revenue, net rental income, and profit before taxes increased. In that sense, it's a good, solid Q1. No material changes in the fair value of investment properties. All the parameters stayed the same. We were able to slightly increase or improve the occupancy. There is seasonal variation, as mentioned. In my eyes, it seems that here in Finland, the data concerning residential startups is always estimates. As we provided already information when it started to go down in our eyes that we don't believe in official estimates. This year, it seems that the estimates concerning 2022 started figures were quite correct. Still, that year quite many projects were started. It seems that more than anticipated projects were started during the latter part of the year and because of that, still now 2024, there comes supply to the market a bit more than estimated last year. As said, the number of new start-ups has been now very low in 2023 and 2024. Looking forward, we will see a very limited number of new completions. The same phenomena will go through the market as now happening to Kojamo where the last project will be completed in June. That will provide a situation still that there is still a lot of supply in the market, and some pressure toward the occupancies throughout the market, at least until the summer. Then things will change and, as there will be no more supply coming to the market, there will be many urbanisation and population growth in all the big cities will start to eat up the supply from the market, and we will be heading towards a housing shortage. The balance sheet and financial figures remain strong, as Erik provided details. The liquidity situation is very good. In that sense, on the financial side, all the loans from 2023-2024 are covered. We are in a good position and able to follow what's going to happen in the financial market. Thank you.

Niina Saarto: Now, we can have some questions. Let's take questions from the phone line. The microphones are all muted now. Please unmute the microphone before speaking. First, we have John Vuong from Kempen.

John Vuong: Hi. Good afternoon. Thank you for the presentation. You mentioned that rent increases were at a higher level than in recent years. At the same time, vacancy is largely unchanged compared to Q1 last year, which I would say from a historical perspective is still a rather high number. What gives you the comfort of raising rents more than previously?

Jani Nieminen: I would say that we based our pricing on the knowledge that there wouldn't be as many new completions coming to the market during the first part of the year. Now, it seems that there have been a bit more than anticipated completions towards the market. We do know that, after these existing projects are completed to the market, then there will be no new supply coming to the market, and the demand is growing. The demand-supply balance will change radically. It's like an optimising game. You can either focus during Q1 on increasing the occupancy without increasing the pricing, or you can start increasing the pricing and get a slightly moderate improvement in the occupancy. That's the balancing game, but then looking forward, we know that throughout the market the supply will go down.

John Vuong: Okay. That's clear. Like you said, it's an optimisation game. At what point do you consider occupancy improvement more important than rental growth, for example? Do I read in your comments that essentially in H2, you're seeing less rent increases and more occupancy improvement driving like-for-like rents?

Jani Nieminen: I would assume that in the latter part of the year, the bigger improvement will come throughout the occupancy but during the same time, we will continue to increase the rents.

John Vuong: Okay. That's clear. Just on your last comment, also on the development completions being higher than expected, is there any risk that 2023 development starts were underestimated as well, which would lead to more completions in 2025 and delay recovery even further?

Jani Nieminen: I don't believe that because all the construction companies are providing quite challenging figures from the year 2023. It's quite public knowledge today that a very limited number of projects have been started last year.

John Vuong: Okay. That's clear. Thank you. That's it for my side.

Niina Saarto: Thank you, John. Next, we'll take some chat questions. There's a question about the saving programme. Did you see any impacts already in Q1 in the profit and loss statements?

Erik Hjelt: There are already impacts in Q1 PNL due to the saving programme. If you look at the whole year's figure, the impact compared to last year's is going to be much bigger, but there's already an impact in Q1. The thing is that we pencilled in inflation of four percent for all expense items. During Q1, already post repairs and SG&A expenses came down from last year. Yes, there is already an impact in Q1.

Niina Saarto: Okay. Then there's a question about valuation. Can you remind us when you next time appraise the properties, will it be the entire portfolio? How valid do you think the current net initial yield is? Is it appropriate to see that the yields will decline when there are little to no transactions being done?

Jani Nieminen: Yes, we do the valuation quarterly basis, always in the same manner, always throughout the whole portfolio. It's always done in the same manner, so full valuation. Yes, we do believe that the valuation is done properly, and the yield requirements are solid. It seems that the transaction volumes have been muted. On the other hand, there seems to be now a bit of increasing appetite in the market. Let's see what's going to happen in the market looking forward. I think that in a way, the market is waiting for the ECB decisions. If they come out as estimated, it will have a positive impact.

Niina Saarto: Okay. Will you look at any divestments this year?

Jani Nieminen: It remains to be seen. We are in a good position. We have all the loans covered. Our figures are solid. We are not in a position where we must sell something, but as previously said, we may end up selling something if we feel that the pricing is rational.

Niina Saarto: Okay. There's a question about the average funding cost, which was 2.6 percent at the end of the quarter. It increased a bit. Was it due to the new loans, or was the June maturing bond still included in the calculation?

Erik Hjelt: It's because of the new financing. That's why it increases. When we withdrew new financing, that increased the average cost of financing, and that was the reason behind that.

Niina Saarto: Okay. About the liquidity, have you been recently in dialogue with Moody's?

Erik Hjelt: Not recently. At the end of the year, we discussed with Moody's, and we update them for liquidity, for example, every quarter. The next discussion will be after our Q1 results are released. It's quite soon. It's an update of what our figures look like.

Niina Saarto: Have you analysed the need to speed up the renovation pace due to the EU Energy Performance Buildings directive?

Jani Nieminen: That's, of course, a topic we follow. As we've been saying, the energy angle has always been included in all our modernisation investments. In that sense, it's not going to change. We haven't found any other reason to focus on the issue at the moment.

Niina Saarto: Okay. The final question from here is about rent increases. We talked about them already, but when do you expect bigger rent increases to be possible? What's the view?

Jani Nieminen: I would estimate that if we think about the whole market, most likely 2025, because many landlords still apply such an approach that they increase the rent once a year at the beginning of the year. Most of the decisions for this year have been made at the market level. I think the market will improve during the summer and looking forward. Those players who have capabilities to adjust the rents on monthly basis started reacting already this year.

Niina Saarto: Okay. Clear. That was the final question. Thanks for sending them. Thanks for joining us. The next report is out on August 15th. I hope to see you then. I wish you all a lovely summer.