Transcript – Kojamo Half-Year Financial Result 2024

August 15, 2024

Niina Saarto: Good morning and welcome. This is Kojamo's half-year results news conference. I'm Niina Saarto from Investor Relations. Today, I have with me CEO Jani Nieminen and CFO Erik Hjelt. They will shortly present the first six months' figures and the outlook for the whole year. Also, Jani will tell us about the market situation. Please send us questions via chat throughout the presentation. In the Q&A, we will also open the phone line for live questions. In case you want to ask a question yourself, you can click the hand sign on the screen and then wait for your turn in the queue. Now, it's time for the presentation. Jani, welcome.

Jani Nieminen: Thank you, Niina, and good morning, everybody. We will provide today, of course, colour on the operational environment, then on key financial figures, and then a more detailed colour on the financial development by our CFO, Erik Hjelt. Then, of course, we will go through the outlook and the financial targets at the end. I will start by covering the operational environment and then the key figures.

Jani Nieminen: As a summary, if you think about what's been going on during the first six months this year, we have been able to increase the total revenue and net rental income against the comparison period. On the other hand, the financial occupancy rate decreased from the comparison period. There, as we've been saying, we have seen a typical seasonality on the other hand still that occupancy tends to go down towards the summer and then they tend to pick up speed. On the other hand, the correction of the oversupply situation in the market has been delayed. There's still plenty of supply and intense competition throughout the market. On the other hand, then if we look forward, we do see things changing as there will be a very limited number of new supplies coming to the market from new development projects.

Jani Nieminen: Funds from operations decreased due to finance expenses and maintenance expenses. Of course, there, it's good to keep in mind that last year we had a positive impact of EUR 8.9 million from the repurchase of bonds. On the maintenance side, one big fact was that the winter was very harsh until the end of April, and that impacted especially heating costs. The saving programme is progressing according to the plan, so all the measures have already been taken, and all the things are progressing without any surprises there. The balance sheet is strong, and our financial key figures and liquidity situation have remained good. It’s good to keep in mind that all the maturing loans in 2024 and 2025 are already covered. In the transaction market, there's been only a handful of transactions. It's still kind of muted. We don't see a lot of activities there but we made a change in the yield requirements, and there was an uplift of ten basis points to meet the transactions which have been made in the market. On the other hand, we do see that the decrease in interest rates reduces the pressure to change the yield requirements in the future. Let's see what's going to happen but that's how we see it at the moment.

Jani Nieminen: Then moving to page five and the bigger picture of operational environment. The outlook for the global economy is improving as inflation is slowing and real incomes are growing. Here in Finland, the economy is not expected to grow this year on an annual level. On the other hand, we estimate that economic growth is expected to start this year. Because of this situation, employment will decrease slightly this year but will grow from next year backed by increased demand and government measures. On the chart on the right-hand side, typical figures. I would say that housing trade volumes are still muted. Estimates of what's going to happen with the home prices, transaction prices where people buy homes are quite flattish. It seems that the price is still under pressure for home buyers to start buying homes. Most likely we do see prices going down during this year. Rents are quite flat in the market as the competition is intense. We see only slight increases throughout the market in some of the places.

Jani Nieminen: A big impact on our operational environment comes from housing production. The residential start-ups plummeted last year and are estimated to decline this year as well. On the right-hand side bottom corner, I would focus on the dark blue colour. We used to have more than 20,000 startups with non-subsidised blocks-of-flats. Those projects are still to be completed on the market. Some of those started in 2021 and 2022. On the other hand, only 3,000 apartments were started in 2023, and the estimate for this year is 2,000. Now, looking forward, not many commercial blocks-of-flats will come to the market in 2025 or 2026. Most likely the same will remain in 2027. That's going to impact our market looking forward. Of course, if we think about the lighter blue colour, there is – I've met the question: What it includes? It includes subsidised housing, single-family houses, and row houses. The government measures have been to back the construction business in that sense that the estimate now is that the light blue colour is a bit taller, a higher number this year. We most likely see about 1,000 more units of subsidised homes to be started this year according to the latest estimates.

Jani Nieminen: On the other hand, looking forward, the supply entering the market will be very limited. On the other hand, the correction has not yet started, and there's still oversupply in the market. But, if we combine these two factors, and we know that the cities are growing, urbanisation is continuing, the supply will decline sharply looking forward. Home sizes and household sizes are backing up the demand, so we do have an increasing number of one and two-person households. Megatrends are still valid. People are moving towards the biggest cities. We do see healthy, strong population growth in cities like Helsinki, Espoo, Vantaa, Tampere and Turku. There, for example, in Helsinki, of course, net immigration plays an important role. In the city of Helsinki during the last 12 months, 75 percent of the population growth comes from immigration. Immigration is a strong factor at the moment. We do see still an increasing number or share of households renting the apartments. That will improve the market for us looking forward.

Jani Nieminen: Moving to page eight and our key figures, the total revenue was EUR 225.6 million. Against the comparison year, the growth was 3.9 percent, driven mainly by apartments completed to the market. Yes, we did have a slight like-for-like growth as well, but mainly driven by the completed apartments. Net rental income was EUR 142.7 million, increased against the comparison year by 3 percent. Of course, total revenue growth helped. On the other hand, if we think about the cost side, the amount of euros pending repairs was now EUR 2.4 million less than a year ago. On the other hand, maintenance expenses grew by EUR 6.7 million, impacted mainly by, I would say, three factors. One is the portfolio growth impacting a bit more than EUR 2 million, then the harsh winter provided an increase in water and heating roughly EUR 3 million, and then property tax a bit more than EUR 1 million. Then, FFO funds from operations was EUR 68.2 million. Of course, there has been an increase in financial costs, and that's been impacting FFO. The fair value of investment property was EUR 7.9 billion. As I said, there's now during Q3 a change in yield requirements, 10 basis points, and that impacted the fair values as well. According to the saving programme, we are not making any new investment decisions. We are not starting new modernisation investments. That's impacting strongly the volumes in our gross investments, now only EUR 19.3 million so far this year. Of that EUR 19.3 million, new development investments EUR 11.8 million and modernisation investments EUR 7.5 million. As said, after June, we don't have any projects under construction at the moment. Profit excluding changes in value is EUR 73.9 million. Of course, that result was impacted by an increase in financial cost and maintenance costs. Then with profit/loss before taxes, it is good to keep in mind that the fair value changes now was EUR -138.5 million, and in the comparison year the figure, it was positive EUR 5.1 million. That made the biggest difference there.

Jani Nieminen: A couple of words on what's Lumo. Our approach has been for several years – the same since we created Lumo brand a decade ago. We want to provide easy, effortless living for our clients. Our aim is to provide added value by combining apartments, common spaces, and services, both physical and digital. The Net Promoter score at the moment was 53. I'm happy with that. Of course, I do believe that we are still able to improve the figure. As digitalisation plays an important role in services, I'm happy to say that at the moment 87 percent of all our tenants use My Lumo services, so it's well used, well accepted, and provides value for the customers.

Jani Nieminen: On page ten, carbon neutrality and sustainability. We always say that sustainability is part of our company's DNA. It has always played an important role for us. It's embedded in all our operations, and we are committed to carbon-neutral energy use in our properties by 2030. The annual target is to reduce by 5 percent until the end of 2025. So far, we've been all the time ahead of our targets. We are progressing well. If we look at the chart on the bottom, we are halfway through already. I think one thing I have not been mentioning is that we have been able to cut down our carbon dioxide emissions by half without spending any additional CapEx. And, of course, all our property electricity is carbon neutral. How to reduce carbon dioxide and reach our target? It's a combination of four angles. Of course, consumer behaviour and how to change that. We are close to our tenants with our property management, our personnel, and our communications. Then, how to utilise technology. A good example has been our AI technology in optimising heating. We've been able to transfer data into a currency. We are giving data to Vantaa Energy, and they are providing carbon-free district heating without additional cost. Of course, measures by all of our partners play an important role. I'm happy to see that these district heating companies share the common target to be carbon neutral. That's helping us a lot. Then, of course, our other measures, whether they are geothermal heating, solar panels, or for example, next-to-zero energy buildings which we started already seven or eight years ago. Good progress there. Now if our CFO Erik, would come and provide colour on detail figures. Thank you.

Erik Hjelt: Thank you, Jani, and good morning, everybody, from my side as well. Page 12, the top-line growth was EUR 8.5 million during the H1 from the corresponding period, and Q2 part of that was EUR 3.4 million. By far the biggest portion of that growth came through the completed apartments, 2024 completed and especially 2023 completed apartments. Like-for-like rental growth was still positive, slight contribution there as well, 0.9 percent, and an increase in rents and water charges contributed 0.9 percent, and occupancy positive 0.2 percent. Then on the negative side, other items which was 0.2 percent. On the net rental income side, the growth was EUR 4.2 million during the H1, and Q2 part of that was EUR 3.1 million. That underlines the fact that maintenance expenses were impacted by the harsh winter, especially during Q1. Maintenance expenses grew EUR 6.7 million and EUR 2.4 million during Q2, and repairs were down by EUR 2.4 million as part of the saving programme. The main growth items in maintenance expenses were growing the portfolio, of course, by EUR 2.2 million, property taxes EUR 1.1 million, and then heating and water together EUR 3 million.

Erik Hjelt: Page 13 on the right-hand side, FFO is down by EUR 12.3 million. Of course, the top-line contributed to a positive EUR 8.5 million and SG&A decreased to EUR 2.4 million. Maintenance is up by EUR 6.7 million as said. The biggest growing item there on the expenses side was financial expenses, up by EUR 21.2 million. In the corresponding period, we repurchase a bond contributing EUR 8.9 million positive. If we exclude that from the finance cost in the corresponding period, then the increase in finance expenses was EUR 12.3 million. The biggest driver there, of course, is the average interest rate in our portfolio went up to 3.2 from 2.4 in the corresponding period because of refinancing. The refinancing is made on a higher level compared to those that are paid back.

Erik Hjelt: Financial occupancy was, as Jani mentioned, down slightly because of the oversupply in the market especially, and down by 0.5 from the corresponding period and 1.3 from the year-end. Tenant turnover was slightly up 0.8 percent. I think for rental income we already covered.

Erik Hjelt: On page 16, the saving programme is proceeding as planned as Jani already mentioned. On the investment side, EUR 19.3 million. By far the biggest portion of that was the only ongoing development that was completed at the end of June, 113 apartments. As we speak, we don't have any ongoing developments. We do have one binding agreement. On the modernisation investment and repair side, the modernisation investments are down by EUR 10.3 million from the corresponding period, and repairs EUR 2.4 million from the corresponding period as planned as part of the saving programme.

Erik Hjelt: Page 17, as Jani mentioned, we slightly increased the yield requirement. There were actually a limited amount of transactions in the market, and most of them are such where the seller is open-ended resi fund, so highly motivated transactions. These yields that we applied at the end of H1 are now reflecting all transactions, whether they are really comparable or not, but all completed transactions are now reflected in this yield requirement. Going forward, of course, interest rates already come down. but expectations in the market are that going forward the interest rates will come down further. Of course, that takes away that helps the pressure of chasing yield requirements going forward. There was on the positive side, EUR 34.3 million in impact, and by far the biggest portion of that came through from ending restrictions. Apartments came out of the restrictions. We still have 404 apartments where there are restrictions regarding the valuations, and those restrictions will gradually by the end of this year, contributing EUR 20-40 million uplift in values.

Erik Hjelt: Equity ratio, loan to value. Still, the balance sheet remained strong is the key message here. Then page 19 loan maturities, so the key here is that in 2024 and 2025 maturing loans are all covered. There are two big reasons behind that statement. One is that at the end of H1, we had EUR 328 million cash or cash equivalent items. As part of the saving programme, we don't have any major investments going on. Then the FFO is left to be used to pay back loans. These two items cover all loans maturing in 2024 and 2025. On the right-hand side, the interest-bearing layer is a little more than EUR 3.8 billion. It's good to note that that's gross. If you look at net debt, that came down to EUR 3,561 million if you take into account the cash and cash equivalents items. We didn't do any real new loan agreements during Q2, but several activities there otherwise. In January, we issued this EUR 200 million bond. In March, we made a EUR 250 million loan that was drawn, and then we drew the EUR 425 million syndicated loan made already last year. However, it was drawn this year, and we paid back this EUR 434.5 million bond in June. Equity per share and EPRA NRV, there are no major changes from the year-end figures.

Erik Hjelt: Then page 22, we have our outlook. We reiterate the outlook we issued in mid-July. Now, we estimate that top-line growth this year will be between 2 and 4 percent. If you take the midpoint of that range, so completed apartments will contribute 3 percent-ish growth, then we expect in the midpoint of this guidance that occupancy will improve moderately during the H2 but still be below the level in the corresponding period. Then on the FFO guidance side, EUR 140 to 152 million. The midpoint in that FFO guidance reflects the midpoint of the top-line growth guidance. Then, we took into account that no new financing arrangement will be done during this year, normal weather during the second half of this year, and the saving programme proceeding as planned. Then, the low end of that FFO range reflects the low end of the top-line growth guidance. Again, the upper end of the FFO guidance reflects the upper end of the top-line growth guidance.

Erik Hjelt: A couple of notes regarding our strategic KPIs. Top-line growth was 3.9 percent. Annual investments were down to EUR 19.3 million as part of the saving programme. FFO against total revenue was EUR 30.2 million. There, it's good to note that the whole year's property taxes are booked during Q1, and that was EUR 15 million in total. Loan to value, equity ratio, as said, are still strong, and Net Promoter Score was high level 53 percent. Now back to Jani.

Jani Nieminen: Thank you, Erik. So I'd say that even though there's tough competition ongoing in the market, we were able to increase both total revenue and net rental income. Of course, FFO was impacted by interest levels. The balance sheet is still strong, financial key figures and the liquidity situation remained good. All loans 2024 and 2025 covered. In that sense, we're going to follow what's going to happen in the financing market. The saving programme is progressing according to the plan. I'm very happy with that. Then, of course, the oversupply situation in the market did not start to dissipate yet. I would say that the rental market with an oversupply situation is estimated to start improving this year. That will continue next year as well. Our renting in July and August is roughly on the same level as last year which is very in line with our latest outlook. In that sense, now, we do have some kind of visibility of what's going to happen in the future. Still, it's a bit hard to say an exact date when the turning point will be from oversupply to undersupply but moving towards that time. Thank you. Now we could move towards the Q&A.

Niina Saarto: Okay. Thank you, Jani and Erik. Do we have any questions? Yes, we have the first question from the room here.

Anssi Raussi: Yes. Anssi Raussi from SEB. Thank you for the presentation and a few questions from me. Maybe I'll start with your occupancy. If we compare your ratio to your competitors' numbers, we can see that you might have been a bit more disciplined with your rent. However, now, if the situation does not get better, let's say during the latter half of this year, are you still willing to maybe sacrifice a bit of your occupancy and hold on to your rents or how do you see the combination of these?

Jani Nieminen: Yes. Thank you for the question, first of all. Of course, I would say all the players do have their own strategies. We estimated that the market would have been picking up a bit more speed even now during the summertime. We did increase rents a bit more already during the first part of the year, started pushing the rents, and the oversupply situation was tough. We were, I would say, a bit too early. That's something we have to follow. The aim is now to improve occupancy but not let go of the rental increases as a whole. However, of course, we have to follow the market pricing. I would say kind of dynamic pricing, you have to be really hands-on on a daily basis with the market condition. Find the micro-locations where you are able to push the rents and then identify those situations where it's now for some time a matter of pricing.

Anssi Raussi: Yes, thanks. Maybe the next one is about your fair values. Difficult question, but you took those values down a bit now. How do you see it? Are you done now, or what kind of discussions you have had with your external appraiser? Of course, it depends on transactions in the market, but how do you see the situation?

Jani Nieminen: As I provided colour, and Erik as well, of course, you are not able to give a full promise and decide what the other buyers in the market will do for the rest of the year or for the rest of a couple of years. But, as said, we have seen interest cuts, and interest rates are estimated to keep on going further down, and that will take at least pressure away from yield requirements to go more up. On the other hand, I said all the transactions in the market were included in the valuation now. There's been, on the other hand, a handful, but in that handful of transactions, some of the transactions I would call at least highly motivated transactions. So what can I say? As said, we don't see an increasing pressure, at least towards the yield requirements. We do see decreasing pressure towards the yield requirements.

Anssi Raussi: Thanks. That's clear. The last one from me, I continue with the easy question. About your dividend, we don't know the future, but it's maybe a bit too early, but how do you see it? Can you continue with the zero dividends? Is it any problem? If necessary, I guess you're ready to do that?

Jani Nieminen: I would say that yes, we came out a year ago during the autumn already with the full package, so to say, the dividend decision was part of that whole saving programme package. Typically, the dividend decision has its own time and place, and it's not yet. On the other hand, we've been quite clear with our message we will defend our investment grade rating, and we are ready to take all measures needed.

Anssi Raussi: Thank you.

Niina Saarto: Next, we can move on to the phone line question, and please unmute the microphone before starting the question. First, we have John Vuong from Kempen. Can you hear us, John?

John Vuong: Yes. Can you hear me? Thank you for taking my questions. In your report, you mentioned that renting in July and August has been supportive of guidance. Could you perhaps provide a bit more colour on that? Does it essentially mean that this H1 for like-for-like rents is the trough, and it should improve from here?

Jani Nieminen: Good morning, John, and thank you for the question. I'm not sure whether you were able to hear that I provided that colour that our number of new tenant agreements in July and August is roughly on the same level as a year ago. A year ago, we did say, that we were quite happy with our renting. I provided the colour concerning the estimate that there's a slight improvement embedded in our estimates.

John Vuong: Then perhaps related to tenant churn. Is that stabilising in July and August if you square that against the new tenant agreements?

Jani Nieminen: It looks to be stabilised on the same level it has now been. I would say slightly elevated against the comparison year, but nothing significant.

John Vuong: Okay. That's clear. Then perhaps on the investment market, you just mentioned that there were highly motivated transactions that were cleared in H1. Just looking at what's still on offer, are all the highly motivated transactions cleared, or there's still more in the market that you're aware of?

Jani Nieminen: I would say that there's still potential for highly motivated sales processes. There's pressure towards some of the open-ended resi funds. I think it's not my position to provide any additional colour there. We know that some processes are ongoing, and according to our understanding and discussions with the brokers, the pricing levels are quite matching with the deals done previously. It would indicate that there are no big changes now at the moment.

John Vuong: Okay. That's clear. Just the last one on occupancy. I mean you have been quite vocal that you want to improve it going forward. What should perhaps be the right level, for say, the next two or three years in terms of occupancy?

Jani Nieminen: I would say in my eyes, let's say two to three years, we're going to hit numbers like 96 percent again. 96-97, somewhere between there.

John Vuong: Okay. That's clear. Do you need to provide any incentives to get new tenants in to get to that level?

Jani Nieminen: Looking forward, the answer is no, because we will face a totally different operational environment with lowering supply in the market. As said, on the other hand, today we do see intense competition in the market. Some of our competitors are quite ready to provide I would say generous campaigns at the moment. We have to fight in that environment at the moment.

John Vuong: Okay. That's very clear. That's it from my side.

Jani Nieminen: Thank you.

Niina Saarto: Thank you. Next, we will take some questions from the chat. The first one is about the liquidity position. As we have mentioned, we had 2024 and 2025 loans covered. However, what do you expect for H2? Do you expect to do some refinancing that could impact the FFO guidance, new loans?

Erik Hjelt: As said, all 2024-2025 maturing loans are now covered. The next one we are looking at is the 2026 maturing loan. There's still plenty of time for that. We haven't decided yet, but it looks like we don't need to do any refinancing during H2. Next year, of course, we want to approach that 2026 maturing loan.

Niina Saarto: Then can you remind what the EUR 34.3 million gain in the valuation of the investment properties was about?

Erik Hjelt: Because by far the biggest portion of that was apartments that came out of the restriction. We had a part of the portfolio apartments where we had restrictions regarding the valuation. When those restrictions end, we start to apply the valuation technique that we use for the biggest portion of the portfolio, and that gives a nice uplift in value. We still have 404 apartments where we have these risk restrictions. Those restrictions will end by the end of this year, providing an additional EUR 20 to 40 million positive uplifting value. Ending restrictions is the reason behind that positive impact on valuation.

Niina Saarto: We continue with the valuation theme. Do you do the valuation internally or externally?

Erik Hjelt: Actually both. Every quarter, we do it internally. On top of that, every quarter, the external expert, being Jones Lang LaSalle, gives a statement for our valuation.

Niina Saarto: In the valuation parameters, we assume a 97.2 percent occupancy rate on a group level. As the occupancy has been below this for some time, how should we look at this in the medium term?

Jani Nieminen: I think it is good to keep in mind that the parameters are for the next ten years all the time, and looking forward, the operational environment is improving a lot. On the other hand, it's good to keep in mind that there is also a parameter that all the vacant apartments in the capital region are kept vacant for the next 12 months. It's not only about the occupancy parameter, it's as well about keeping the empty apartments empty in evaluation.

Niina Saarto: Right. Then about rent increases in 2025, what kind of level are you viewing at the moment?

Jani Nieminen: I would say that today is not the day to provide yet comments on rental increases for 2025. But, as I said, we've been digging and digging for data on what's going to happen in Finland city by city. It's not an easy task to find all the construction projects and their timing. However, the market is improving. There will be less and less supply. Urbanisation is ongoing. The oversupply situation, as said, will start to go away already this year. It will continue next year. That will improve the rental market and that will back higher rental increases.

Niina Saarto: Then about disposals, the market has been fairly inactive so far this year. Do you have any disposal targets?

Jani Nieminen: We don't have a set target to provide here but we already said a year ago that as a part of the saving programme, disposals are a possibility and something we may end up doing. At the moment, the balance sheet is strong, all the loans maturing 2024 and 2025 are covered, so we are not between a rock and a hard place and have to sell today at any cost. However, we are scanning the market, and if there's an appetite in the market and pricing is reasonable, we will make disposals. Whether it's autumn, winter or spring, in my eyes, it's not that important. It's like finding the right portfolio to be sold and finding the right buyers to pay the right pricing.

Niina Saarto: Then about financing. The hedging ratio came down to 78 percent. Can you elaborate on your hedging strategy?

Erik Hjelt: The strategy is that all the times between 50 and 100 percent have to be hedged. Then, we've been on the conservative side historically, and this level at the end of H1 is again quite conservative. Now, we are looking at, of course, the market and expectations for interest rate declining. We are ready to do some swaps, but 50 to 100 percent at all times.

Niina Saarto: Then about the maturing loans, there is a question about committed credit facilities. Do you see the need to use them to pay back loans?

Erik Hjelt: Actually, no, because the cash position, an FFO, and the saving programme together cover the 2024 and 2025 maturing loans. We don't calculate our plans that we need to use this committed and use credit facilities for repayment.

Niina Saarto: Okay, clear. Then actually, the final question about Moody's and the rating. Any news from that side?

Erik Hjelt: Nothing there. We haven't been discussing with those guys lately, and we have set the next meeting in two or three months' time. We haven't been discussing assets with those guys.

Niina Saarto: Thank you. Seems that we have one additional question from this room here.

Anssi Raussi: Yes. Anssi Raussi again from SEB. One more question from me. If you think about the legislation in Finland, we know that there were some changes in the housing allowance system. Now, we know that there might be some limits for tenant incomes starting from early 2025 in subsidised apartments. How do you see the dynamics, and are these important to you, or do you feel that you're having fierce competition with the city of Helsinki apartments?

Jani Nieminen: I would say that we don't place our business based on subsidies. The typical tenant we aim for is not receiving subsidies. It's an individual moving towards a big city in order to start working. Nevertheless, even if we don't follow, and when we don't follow who's receiving subsidies or not, some of the clients do receive subsidies. These changes go through the whole market. It's not impacting only Kojamo, it's impacting the whole market. In that sense, I don't see it changing the market. I read the newspaper during the last two weeks, and I would say there's kind of a challenge coming that as the city of Helsinki already provided information about rental increases in 2025, they are breaking the limit with the excepted maximum cost on a monthly basis. That should be the cheapest or most affordable living for low-income people. I think in those cases the challenges are the biggest. However, that's something we have to follow. Is it going to impact the market? It’s easy to say that at least not yet. Kind of a couple of scenarios: Will students start working a bit more along with their studies? Would there be a new phenomenon that co-living would increase? That's something we will have to follow, but nothing yet.

Niina Saarto: Okay, then. Thank you for all the questions. Our Q3 numbers are out on 7th November. Thank you all for joining us today. See you then in November. Thank you. Bye-bye.