

Transcript – Kojamo Q3 2024 result

November 7, 2024

Niina Saarto: Welcome. This is the Kojamo's third quarter results webcast. I'm Niina Saarto from Investor Relations. Today's presenter is our interim CEO, Erik Hjelt. Erik is going through the result, and then as usual, we will have Q&A. You can send questions via chat, or in case you want to ask the questions yourself, you can click the hand sign on the screen and then you just wait for your turn in the queue. Now we can start the presentation. I'll hand it over to you, Erik.

Erik Hjelt: Thank you, Niina, and good morning everybody. I'm excited to discuss about the Kojamo Q3 figures. On page 4, we have in a nutshell what happened during the Q3. Our total revenue and net rental income increased both actually by 3.1 per cent from the corresponding period. Our financial occupancy rate decreased from the corresponding period, but the occupancy rate third quarter improved compared to second quarter. So, our occupancy rate is not at a satisfactory level, but during Q3, we moved into the right direction. There is still oversupply in the market, but it turned to a decline. That goes with all so with Helsinki, Espoo, Vantaa, Turku and Tampere.

Erik Hjelt: Our FFO decreased due to the increase in financial expenses and maintenance expenses. Our average cost of financing declined from Q2, but it's still at a higher level compared to the last year's corresponding period. Maintenance expenses increased mainly because of the cold weather, especially during the first four months this year. There was no significant change in fair values of investment properties during Q3. Our saving programme is proceeding according to the plan. Both cost of items, savings in repairs and SGA expenses, as well as investments are all in line with our plan. Our balance sheet remains strong, and our liquidity situation is good. The next financing is about to refinance the 2026 maturing loans.

Erik Hjelt: If we look operating environment, the GDP growth in Finland is on negative territory. Inflation is below the two per cent target that was set by the central bank. 1.8 is the estimate for inflation. The Finnish economy is contracting this year, but the turn towards growth has already begun here in Finland. On page 6, if you look at the supply side, the estimates are that 17,000 new apartments will be started this year. That's the whole country and all the unit types. If you then look more at the important figure for us which is non-subsidised apartments, the startup is estimated to be only 2,000. It used to be about 20,000, so this 2,000 is a very, very low figure. Discussions with the construction companies indicate that in the near future, they are not starting any major new projects. That actually means that once this ongoing development will be completed, there is not going to be any significant new supply into the market in 2025 and 2026. As we know that it takes roughly 18 months to complete a new development project, it can go as long as 2027 before we see any new meaningful supply coming into the market.

Erik Hjelt: On the demand side, of course, these megatrends are still valid so the development of household size is declining unfortunately in Finland. Urbanisation is still there. The fact is that in the bigger cities, more than half of the households are living in rental apartments, over owner-occupied homes. Migration is already quite strong here in Finland so we are already at pre-COVID-19 levels. The population growth in these growth areas is there already. The immigration is strong as well. There are different estimates of how many people are moving towards Finland. It varies between 30,000 and 40,000 people moving to Finland, and most of them to the Helsinki region. The demand side is estimated to be strong going forward as well.

Erik Hjelt: Then if you look at more detailed financial figures, the total revenue growth at EUR 10.2 million year to date and EUR 1.7 million during Q3 compared to the comparison period. The biggest contributor for top-line growth was completed apartments, earlier this year and last year completed apartment, which was EUR 11.9 million for the year to date and 3.5 million for Q3. Rents and occupancy had a negative impact of EUR 2.7 million year to date. I'll come to the like-for-life rental growth rate later. Net rental income grew to EUR 6.8 million, EUR 2.6 million during Q3. The cost side growth was mainly because of the increased maintenance expenses of EUR 6 million. The growth of the portfolio was impacted by EUR 1.6 million, heating and water by EUR 4.2 million, and as said, especially during the first four months of this year because of the harsh winter. Property taxes were up by EUR 1.3 million. Net rental income margin remained stable so 67.4 per cent same as in the corresponding period.

Erik Hjelt: Profit before taxes, if you look, without value changes, it's negative EUR 20.3 million. Net rental income, as said, is on a positive side. Then financial expenses increased by EUR 29.5 million. It has increased, but it's good to keep in mind that in the corresponding period, there was EUR 8.7 million in profit from the repurchase of the bonds. If you exclude that, the finance expenses increased nevertheless. SGA expenses decreased by EUR 4.1 million. A couple of notes regarding FFO compared to profit before taxes. FFO's side financial expenses were EUR 28.5 million higher than the corresponding period. Cash tax was EUR 3.4 million lower than in the corresponding period.

Erik Hjelt: Financial occupancy rate, as said, declined from the corresponding period but improved during Q3 compared to Q2. There's still an oversupply in the market, and there's not that much of tailwind yet for improving occupancy but the improvement has come through because of our own activities. We've been doing some changes, especially in sales management and resources. Better responding to the evening and weekend demand from the customer side especially. On like-for-like growth, the impact of rent and water charges is 0.9 per cent, occupancy rate -0.9 per cent, and then -0.4 per cent on other impacts. That comes through because we are now more flexible on when it comes to the pricing regarding the support on the improvement of occupancy. We have done some price reductions in those apartments that have been vacant for a very long time. We then have some campaigns, so one-month free period for some of those apartments that have been vacant for quite some time. In total, the rental growth was -0.4 per cent.

Erik Hjelt: As part of the saving programme, investments decreased significantly. Gross investments were EUR 21.6 million, almost EUR 140 million down from the corresponding period. We started one new development project that is based on a previous binding agreement back in the day. 119 apartments will be completed in Helsinki at the beginning of 2026, but no other ongoing developments, and for the time being, we don't do any new investment decisions. Modernisation investments and repairs are both down according to the saving programme in total EUR 22.7 million. EUR 4.7 million on the repairs side and EUR 18 million on the modernisation investment side.

Erik Hjelt: Fair values didn't change significantly at the end of Q3. We kept valuation parameters unchanged due to the fact that

there was a limited amount of transactions in the market. In the H1 valuation, we took into account all three transactions completed by the end of Q1 in the market. They were all taken into account in the H1 valuation. There were a couple of smaller portfolios completed during Q3. There, the pricing was pretty much in line with what we saw during the H1. There are still 404 apartments coming out of the restrictions. There will be an uplift in the value when those restrictions end by the end of this year, between EUR 20 million and EUR 40 million.

Erik Hjelt: Loan to value and equity ratio are strong, in line with the current public rating, Baa2. We have quite a sizable buffer against the maximum level of loan-to-value to 50 per cent. Actually, Loan to Value and equity ratio is pretty much unchanged from H1 figures. The loan maturing 2024 and 2025 are already covered. We have quite a strong cash position, roughly EUR 350 million. The idea for us is to use that cash to pay back the bond maturing first quarter of 2025. Then, that actually means the next financing need is actually to refinance the 2026 maturing loan. The average interest rate in our portfolio came down. It's now 3 per cent. At the end of H1, it was 3.2. The hedging ratio was high, 93 per cent. In the autumn, Moody's confirmed our rating Baa2 with a negative outlook. That's a positive sign as well. EPRA NRV was 18.34 euros per share. Then, our outlook. We kept our outlook unchanged. We estimate that the top-line growth will be between two and four per cent, and the FFO also will be between EUR 142 million to EUR 152 million, so unchanged outlook there. At this point, I am happy to answer any questions that might be.

Niina Saarto: Okay. We can start from the phone line. When you hear your name, please check that your microphone is unmuted. The first one on the line is Andres Toome from Green Street. Go ahead, Andres.

Andres Toome: Why is the impact of other items getting worse in like-for-like income?

Erik Hjelt: It's a combination of price reductions in some apartments that have been vacant for quite a long time and the impact of some campaigns. It's rent-free periods to support the renting.

Andres Toome: Okay, understood. Then, some third party data sources suggest that market occupancy rate in Helsinki has increased in the third quarter by about 100 basis points but Kojamo's portfolio occupancy seems to have increased less than that. Can we expect occupancy to climb further in the fourth quarter to catch up to market trends?

Erik Hjelt: It's a little bit challenging to say what is the market vacancy. It's clearly improving. Not that much because there's still oversupply in the market. As said, during the Q3, our occupancy moved into the right direction. Since then, we've been making quite a nice amount of new lease agreements. There's still oversupply in the market, but we are moving in the right direction given the actions we've taken inside the company.

Andres Toome: And my final question. Looking at what is under construction at the moment, it still feels like there are quite a lot of completions to come in 2025. Do you think it's fair to say that, actually, the rental tension will get better only in 2026, or are you seeing anything that would suggest that it could actually happen in 2025?

Erik Hjelt: In the market, there is construction companies that still have quite a large amount of unsold apartments. But, they are of course meant to be sold to individuals. As we speak, there are some ongoing developments, but a big portion of that is actually social housing. They are changing the rules for social housing, and that's why all these social housing players tried to start as many projects this year as possible. So, even the social housing developments will come down next year. The amount of non-subsidised rental apartments part of the market on-going is actually quite low. If you take the estimates of the population growth in these growth areas, and if you take the amount of start-ups and the ongoing projects, there's a pretty clear view of what is going to be finalised the next year. That indicates that we will be in equilibrium perhaps after the summer of next year. By that, I mean that the vacant apartments in portals will be roughly on the same level what we saw before COVID-19.

Andres Toome: Understood. Thank you.

Niina Saarto: Okay. The next question comes from Celine Soo-Huynh from Barclays. Go ahead, Celine.

Celine Soo-Huynh: Hi, Erik. My first question is on disposals. Remember when you announced the saving programme, you also said you could be looking at disposing as part of it. We are in November, so is it fair to assume that no disposals are happening this year? If you could also comment on the transaction market. My second question is when do you think you can update the market on your search for new CEO? Thank you.

Erik Hjelt: Thank you for the questions. Yes, we are still looking at disposal. We are not in a position where we have to sell anything. Our aim is to dispose moderate amount of properties. A couple of smaller transactions are almost signed if I may say so. It remains to be seen when we are able to complete them. There are several ongoing discussions. It's really too early to say when something will really be completed. That's something we are working on. The process for recruitment of the CEO started after the announcement early last month. There is a head-hunter involved in that process, and that's an ongoing process. It remains to be seen when the candidate is there and how long it takes before the one can start here. I have agreed to take care of this position as long as it's needed and until when the new one comes in.

Celine Soo-Huynh: Thank you, Erik.

Niina Saarto: Thank you, Celine. No further questions there. I have a couple of questions here in the chat. Erik, can you provide some colour on the like-for-like assumption in this year's guidance?

Erik Hjelt: In this guidance, in the midpoint of the guidance, the like-for-like assumption is in line with what we've seen year to date.

Niina Saarto: About the rental market, can you comment on what type of rental incentives there are used?

Erik Hjelt: Typically, there are rent-free periods at the beginning of the lease agreement between two weeks up to one month in

our case. We've seen in the market some competitors offer even a two-month rent-free period. In our case, typically, it is from two weeks to one month.

Niina Saarto: Okay. Thanks. About financing, what are your plans for 2026 maturities?

Erik Hjelt: Our preference is clearly to return to the bond market. In our case, it's always been important that we have access to different sources of financing. Of course, we look at all options, but our preference is clearly to return to the bond market. The market as such has moved in our direction. Swaps came down, spread tightening, and the market seems to function very well. Perhaps for us, the sweet spot timing-wise would be Q1 next year. But, as said, our preference is clearly to return to the bond market.

Niina Saarto: Thanks. The final question today: What do you see in the transaction market and the foreign investor interest?

Erik Hjelt: The transaction market is still muted. The volumes are very, very low. When discussing with brokers, we got the impression that there are still international investors who are scanning the market. For various reasons, those discussions haven't really led to transactions. During Q3, we saw three smaller portfolio transactions in the residential market in Finland. The sellers mainly, actually two out of three, were open-ended residential funds. The buyers were private equity or fund-type of international players.

Niina Saarto: Okay. Thank you. That was all for today. Thank you all for joining. Our full-year numbers will be released on February 13th. I hope to see you then. Now, I wish you all a great week. Bye-bye.

Erik Hjelt: Thank you. Bye.