Transcript – Kojamo Q4 2024 Financial Statements Release

February 13, 2025

Niina Saarto: Good morning, and welcome. This is Kojamo, and this is our full-year result webcast. I'm Niina Saarto from Investor Relations. Today, I have with me our interim CEO, Erik Hjelt. He will shortly present last year's figures, and then, we will hear about the operating environment. Finally, he'll share with us the outlook for the current year. Please send us your questions. You can do that via chat throughout the presentation. Then in the Q&A which is after the presentation, we will also take questions from the phone line. Now, I think we are good to go, so I will hand it over to you, Erik.

Erik Hjelt: Thank you, Niina, and good morning everybody from my side as well. I'm thrilled to discuss Kojamo's last year. On page four, we have the highlights of the year. Total revenue and net rental income grew in 2024. The top-line growth was 2.3 per cent and the net rental income grew by 0.1 per cent. We were able to improve our occupancy. During the fourth quarter, the improvement was 30 basis points compared to the third quarter. This was despite the normal seasonality and the oversupply still in the market. If we just look at Q4, December was the strongest month in Q4. As said, there's still oversupply in the rental market, especially in the capital region, but expectations are that the market will balance out. This is because of the historically low amount of residential start-ups we see in the market and the population growth has accelerated in bigger cities. FFO decreased last year, mainly because of the financial expenses rose, and then maintenance expenses were on a higher level compared to the previous year. Our saving programme was implemented according to the plan. Both PNLs impacted mainly repairs and SG&A expenses, savings there, and investments as well, so they were very low level compared to previous years. Our financial position is secured, so we are in quite a strong position there. All this year's maturing loans are already covered, and the next one we are looking for is to refinance the 2026 maturing loans.

Erik Hjelt: If you then look at the operating environment, the Finnish GDP is expected to turn to growth. It's quite moderate growth but growth anyway. Expectations are 1.6 per cent inflation which is a very moderate level. That is a positive thing for the Finnish economy. There are certain uncertainties related to the market for the global economy. If we then look at the supply side of the market, there are estimates that there are roughly 20,000 start-ups here in Finland in the whole country this year. This is quite a low level, given the fact that the estimates of 35,000 start-ups are required to cover the needs for new apartments, especially in growth centres. In our case, the more relevant figure is the start-ups of non-subsidized apartments. Last year, there were around 2,000 apartments, and that's a historically low level compared to many, many previous years. Not in 2023 but in other previous years. The volume has been about 20,000, but last year only 2,000. There are estimates that the number of non-subsidized apartment start-ups this year is going to be 7,500. That's kind of the official estimates, but that might be on the optimistic side. Thus, very low level of start-ups even this year. As we know, it takes on average 18 months to complete a new development project. That means that after the tail of the earlier started projects will come to the market first half of this year, there's going to be a very limited amount of new supply coming at the later part of this year, 2026, and it's fair to say even 2027. If we look at the demand side, the migration is already on the same level as it was before COVID-19 kicked in. This so-called growth triangle is growing, so that part of the population growth is already in place. On top of that, we have seen in Finland, according to Finnish standards, quite strong immigration. There are several estimates that immigration is going to be around 45,000 people this year and then 40,000 next year. These are estimates given by the statistics of Finland.

Erik Hjelt: Then, if we move to page 10, we look first at total revenue. Total revenue growth was EUR 10.2 million last year. Completed apartments contributed EUR 14.2 million to the growth. On the negative side, there was the impact of rents and occupancy. Net rental income, the growth was EUR 5.7 million. Maintenance expenses are up by EUR 10.8 million. The biggest drivers there were heating and water, the portfolio growth during last year and then property taxes. Heating was up almost EUR 4 million compared to the previous year, mainly because the last winter was very harsh in Finland. Repairs were down EUR 5.2 million from last year.

Erik Hjelt: Profit before taxes and FFO, if we first look at the PNL side, the SG&A expenses are down by EUR 6.2 million. If we exclude one off the items, SG&A expenses were down by EUR 7 million. Financial expenses were EUR 32.5 million more than in previous years. Off course, the underlying loan portfolio was bigger, but on top of that, the higher interest rate environment played a role there.

On the FFO side, the financial expenses impact was EUR -32.9 million. It's good to keep in mind in corresponding periods, there was almost EUR 9 million profit regarding the repurchase of the bonds. Nevertheless, financial expenses were clearly higher compared to previous years. The current tax is slightly down by EUR 3 million.

Erik Hjelt: Financial occupancy rate. As said, we were able to improve the occupancy during Q4 compared to Q3 by 30 basis points, and December was the strongest during Q4. This was despite the fact that there's still oversupply in the market and normal seasonality is what we see in the market, but we were able to move in the other direction. Tenant turnover remained at the same levels as seen in the previous year.

Erik Hjelt: On like-for-like rental income. Impact of rents and water charges were on the positive side by one per cent. We are still increasing the rents on a monthly basis, but the increases are moderate compared to the beginning of last year. This other impact is the impact of being more flexible. In some cases, we've been even lowering the rents, and in some cases, we are offering incentives or rent-free periods at the beginning of the tenancy and the impact was -0.4 per cent. Occupancy was on the negative side, -1.9 per cent. As we said already during Q3, our occupancy is not at a satisfactory level, and this is something that we are focusing on to improve the occupancy. Late last year, we were able to turn the trend and have been moving in the right direction. Not at a satisfactory level yet, but moving in the right direction. If you combine this, the rental income growth total was in the negative territory.

Erik Hjelt: As part of our saving programme, investment decreased significantly. If we first look at gross investments, it came down by EUR 137.9 million from the corresponding period. The last ongoing development was completed in June last year, and now we have one ongoing project that is based on the previously signed agreement. Now, 119 apartments are to be built here in Helsinki that will be completed in early 2026. Then, if you look at the modernisation investment side, it's down by EUR 22.6 million from 2023, and repairs, as already said, are down by EUR 5.2 million from the previous year. All investments and savings are in line with the saving programme.

Erik Hjelt: Page 15. The value of investment properties. The whole year figure was EUR -134 million. During the Q4, the value change was EUR +3.9 million. There's a limited amount of transactions in the market, as we all know, so the valuations should reflect the actual transactions in the market. Now, there haven't been that many transactions. Actually, only one completed transaction during Q4. There, the pricing was pretty much in line with what we saw earlier this year. We kept valuation parameters at the end of Q4 unchanged, given the fact that there are no changes in the market. Of course, the decrease in interest rates has reduced the pressure to increase the yield requirements.

Erik Hjelt: The loan to value is slightly down as anticipated. That was the plan to bring that loan's value slightly down. We still have quite a sizable buffer against this 50 per cent level. The target is to be below this 50, and currently, we are at 43.9. It's a quite strong buffer against that 50 per cent level. Page 17. Loans maturing 2025, they are covered, as I said. At the end of last year, we had EUR 359 million in cash or cash equivalent investments. We had EUR 375 million committed, unused credit lines in place. We signed in December last year the new unsecured financing agreement with the new bank that was EUR 150 million. In that, the 50 million part of that is a term loan, and it was undrawn at the end of last year. On top of that, that 150 million includes EUR 100 million credit line. All 2025 maturing loans are covered. The next arrangement we are looking at is to refinance 2026 maturing loans. Our aim is to return to the bond market, and we've been in a good position that we have had access to different sources of financing. Now, it looks as if the bond market is attractive, and we aim to return to the bond market. It's not yet decided fully, but it might happen already during Q1 or Q2 this year at the latest. Our financing key figures pretty much unchanged. The hedging ratio is quite high at 93 per cent. The average interest rate is unchanged as well at three per cent, and the coverage ratio is 2.6. EPRA NRV is pretty much unchanged compared to the end of 2023.

Erik Hjelt: Then, our outlook, we estimate that the top-line growth this year is going to be between one and four per cent, and the FFO will be between EUR 135 million and EUR 145 million. If you take the midpoint of the top-line growth guidance, it reflects that there's basically no impact on completions, given the fact that we are not investing at the moment, so no ongoing developments will be completed this year. There is no impact there. The midpoint of that guidance includes improving occupancy, moderate rent increases and the fact that we are still flexible when it comes to the rent levels, given the fact that we are still focusing on improving the occupancy, and that's why we are flexible in the rents. At the midpoint of that guidance, we are not expecting any support from the improving market. Then, the FFO guidance. The midpoint of that reflects the impact of 2026 maturing loans to be refinanced this year and pay back 2025 maturing loans as well. The average weather factor is quite important when it comes to the maintenance expenses. The SG&A expenses and repairs are in line with 2024 figures. Then, the total revenue growth guidance is included in the FFO guidance range as well. Now I'm happy to answer any questions there may be.

Niina Saarto: Okay. It seems that we don't have any questions coming from the phone line, but instead, we have some questions here in the chat. To start, you ended with the guidance, so what sort of occupancy improvement or rental growth is included in the total revenue guidance?

Erik Hjelt: If we consider what we are aiming for, most likely quite moderately increases in the rents to support the occupancy improvement. Basically, no impact from completed projects, so most of the top-line growth is coming through improving occupancy.

Niina Saarto: Then another topic. Can you comment on next year, meaning this year, investment volumes or CapEx?

Erik Hjelt: If we first start with the actual investments, we have only one ongoing development, which is the 119 apartments. There, the investment is going to be quite limited. We are going to increase the modernisation investments clearly higher than last year, but not at the level that it was in 2023. We expect repairs to be broadly in line with what we saw last year. Of course, there's an inflation impact on maintenance expenses, but the weather factor is important. The budget and the outlook are given based on the so-called average weather for this year. It remains to be seen what the outcome really is, but so far, the winter has been quite mild here in Finland. However, it remains to be seen where we finally end with those figures.

Niina Saarto: There are questions about the occupancy. Are you able to comment on anything about the year-end occupancy rate or how the occupancy rate developed during the last quarter?

Erik Hjelt: As said, December was the strongest month during Q4, and the monthly occupancy was 91.8. In January and beginning of the February this year, we have made a good amount of new lease agreements.

Niina Saarto: Is it possible to comment on the start of the year, then?

Erik Hjelt: As said, during the January and beginning of February, we had made a good amount of new lease agreements.

Niina Saarto: Then we can move on to another topic. There have been discussions on open residential funds here in Finland, closing there. Will their problems and troubles have any impact on our valuations going forward?

Erik Hjelt: These open residential funds have been active in a muted transaction market, and all those transactions already are included in or taken into account in our valuation. Now, they are closed, and most likely they are not disposing of anything at the moment. In that sense, we don't anticipate any impact on our valuation. Valuation, as already said, should reflect observations from the market and those transactions that are comparable. They have to comparable and made between willing parties on buying and selling sides. These open residential funds haven't been distressed sellers, but they have been so-called highly motivated sellers. You need to be a little bit cautious about whether they are comparable. However, as said, all transactions completed are taken into account in our valuation. As long as these residential funds are closed, most likely they are not disposing of anything. One additional note is that it's quite unlikely that those residential funds that are closed will start any new developments. That will most likely impact the market recovery.

Niina Saarto: Thank you. There is a question about the savings programme. Can you comment on it? There's a question, where are you standing now with the savings programme?

Erik Hjelt: When we released the savings programme, we communicated that we aimed to have savings on the PNL side and then take down the volume for investments. We have achieved those goals. First, when we look at the PNL, we pencilled in the impact of inflation and savings, especially from repairs and SG&A expenses, EUR 80 million. We achieved that. We were able to offset the impact of inflation, and the savings on repairs and SG&A expenses in total, excluding one off items, was EUR 12 million. In that sense, we achieved nicely our target. In total, what we achieved on the investment side, taking down the volume of modernisation investments and growth investments, we achieved more savings compared to the target we had set. We are very well in line with those targets, and they are achieved. We haven't started a new saving programme this year, but as said earlier, we expect that the repairs are broadly in line with last year's figures and SG&A expenses as well broadly in line with last year's figures. There is no new saving programme as such, but the cost side is well in control, I would say.

Niina Saarto: Okay. Then, about year-end valuation, what sort of discussions were there with the evaluator, especially on the occupancy assumption?

Erik Hjelt: There were quite limited discussions related to the occupancy and normal discussions as a whole. However, it's good to keep in mind that what happens in the short term and what happens in the long term is slightly different from the valuations that are based on occupancy assumptions for 10 years, and there are no changes there. We know that there are players in the market who apply in their calculation even higher occupancy assumptions than we do. Then on top of that, in short, we have pencilled in our calculation factor that all vacant apartments will be vacant for 12 months. That's quite a tough assumption. The short-term impact is taken into account in that way, but in the long term, it's a 10-year assumption for occupancy. There is no reason to believe that we need to change that, and JLL didn't require any changes regarding this topic.

Niina Saarto: Then about the rental market. What kind of change have you seen in incentives over the past few months?

Erik Hjelt: In the market, there's oversupply, and in the market, we still see incentives. Typically, rent-free period at the beginning of the lease agreement for one to two months and then other, all kinds of additional benefits. We've been quite tough on what we actually offer. Today, we do offer incentives, but typically, they are rent-free periods between two and four weeks at the beginning of rental agreements. However, in the market, we have seen many different kinds of incentives, but we haven't seen any changes there in the market.

Niina Saarto: There are some questions on financing. If we take the new refinancing for this year, can you comment on what the margins might be for those?

Erik Hjelt: We have indications from the banks, and we look at the secondary market on pricing in our bonds. In five to seven years maturities, the spread indications are somewhere between 140, 160, and 165 basis points.

Niina Saarto: I think this is the last question. What is your expectation when the supply-demand balancing will be visible or more visible?

Erik Hjelt: We are very cautious about giving any data regarding this, and we are not giving any outlook. However, if you play with the figures or if you take the volume of start-ups, and that reflects the volume of completions to the market, and combine that data with the expectations for population growth in these growth centres, if you just play with these figures, we might be, during Q3 or Q4 this year, in a balanced situation. When I say balanced situation, I mean that available apartments in the portals on the same level as they were before COVID-19 kicked in. If this trend goes on, we might end with a situation where there's a shortage of apartments. Not this year, but if these trends go on. Balancing in the market is not happening in every town, city, or area at the same pace. There are going to be differences between cities, but this is what the market at the moment looks like.

Niina Saarto: Thank you. That was the last question. Thank you all for sending those. Our next report is out on the 8th of May, and I hope you can join us then as well. Now, I wish you all a good rest of the week. Bye-bye.

Erik Hjelt: Thank you. Bye.