Transcript – Kojamo Q1 2025 Interim Report
May 8, 2025

Niina Saarto: Good morning, all, and welcome. This is Kojamo, and this is our Q1 result webcast. I am Niina Saarto from Investor Relations. I have with me here today Erik Hjelt, our interim CEO. He will give us a presentation covering the Q1 results and also an update on the operating environment. Please be active. You can send questions via chat. Those who are joining over the phone lines can also ask live questions when we have the Q&A after the presentation. Now I think we can give the floor to Erik. Welcome.

Erik Hjelt: Thank you, Niina. Good morning, everybody. I'm really excited to discuss our latest result. Operationally, we had a very strong quarter. The improvement in our occupancy rate accelerated in the first quarter of this year. Total revenue and net rental income grew in the first quarter of this year. Total revenue growth was 0.9 per cent, and the net rental income growth was 3.7 per cent. Our FFO decreased because of the effect of increased financial expenses. Net rental income grew EUR 2.2 million, but on the FFO side, financial expenses grew EUR 3.6 million. Our occupancy rate has improved since last autumn, and the increase accelerated during the first quarter. During March, the occupancy was already 93.5. Our balance sheet remains strong, and the liquidity situation is very good. Following the successful issuance of EUR 500 million in March, we can now say that, already, 2026 maturing loans are covered. Geopolitical tensions grew significantly at the beginning of this year, and that has of course an impact on the general economic environment. Since Kojamo is operating only in Finland, and we don't have any exports or import, the direct impact of this geopolitical tension is not visible in our operations. For us, it's more important what is happening in the rental residential market here in Finland. I'll come to that later as well.

Erik Hjelt: Operating environment, as said, the global economy is expected to be uncertain to say the least. The Finnish GDP growth is expected to be one per cent, so quite muted but anyway growing. Inflation muted as well, so a little more than one per cent. In that sense, a good background for our operations. Operating environment, if you look first at the supply side, already three years in a row, the residential start-ups in Finland have been historically low level. 2023 and 2024 had below 20,000 units each year, and the estimates for this year are around 20,000 as well. For us, more important is non-subsidized apartment start-ups. In 2023 and 2024, each year, it was well below 4,000, and the estimates for this year's non-subsidized apartment start-ups are 7,500. That estimate is given by the Confederation of Finnish Construction Industry. If you look at the releases from listed construction companies, this 7,500 may be quite an optimistic figure. Nevertheless, there are estimates that in Finland, we need 35,000 new apartments annually to cover the needs of urbanisation. These startup figures are way below that requirement. As we know, it takes roughly 18 months from once they start until a project is completed, so it's pretty clear that in the second half of this year, 2026 and 2027, no major amount of new supply will come into the market.

Erik Hjelt: Moving to the next page of the demand side. Urbanisation is already on the same level as it was before COVID-19, and in the City of Helsinki, for example, the population growth there is even stronger than before COVID-19. At the same time, immigration according to Finnish standards has been quite strong. Statistics Finland estimates that this year, 45,000 people are moving to Finland, and next year, 40,000. Most of these people who are coming to Finland are staying in the Helsinki region. We are not giving any guidance here, but if you combine these two figures, the volume of residential startups and the population growth in these growth centres, we might be in a balanced situation by the end of this year. When I say balance situation, I mean that the available apartments in the public portals are on the same level as it was before COVID-19.

Erik Hjelt: Moving to page nine, total revenue grew by EUR 1 million. Improving occupancy contributed EUR 0.5 million and then completed apartments another EUR 0.5 million. Net rental income grew 2.2 per cent. Repairs were EUR 0.2 million lower than in the corresponding period, and maintenance was EUR 1 million below the corresponding period. Heating was EUR 1.4 million, down from the corresponding period due to the mild winter here in Finland. Electricity was EUR 0.5 million below last year's figures during Q1 as well. On the growing side, there was water and cleaning together, roughly EUR 1 million up.

Erik Hjelt: Moving to page ten, a profit before taxes excluding change in values. Net rental income contributed EUR 2.2 million. SG&A expenses same level as in the corresponding period, and financial expenses on the P&L side are up by EUR 4.7 million. On the FFO side, financial expenses are up by EUR 3.6 million. Page 11, our occupancy has improved since last autumn. If we compare Q1 occupancy to Q4 last year, the occupancy rate improved 1.2 percentage points, so quite a strong improvement there. If we take only the occupancy rate for March, it was already 93.5 per cent. During April, we have made a good number of new lease agreements as well. Tenant turnover decreased from last year, so the corresponding periods are down by 0.6 per cent. All this happened regardless of the fact that there's still an oversupply in the market, and there's typical seasonality in the market. What have we been doing? The renting has been quite strong. There are several reasons behind that positive improvement there. We are still increasing the rents for existing customers by more than one per cent, but that's a much more moderate level compared to the beginning of last year. We are more flexible when it comes to the rents. We have made some additional repairs to support the renting, and we have improved our own operations. We have developed our sales management, and we have enhanced our online processes. Then, we have established a sales support function in our service centre. Tenant turnover is coming down as well. Other thing that contributing to improving occupancy is that we have enhanced our ability to improve customer satisfaction. We have now been developing our operations of a Lumo service centre, and we have improved our cooperation with property management partners. The end situation is that we are offering faster and more effortless service for our customers, and this is already visible in our figures. Net Promoter score 57, so an all-time high figure there.

Erik Hjelt: Page 12, our Like-for-Like rental income. It's good to keep in mind that Like-for-Like calculation is backward-looking. It's the past 12 months compared to the previous 12 months. If you look at the impact of rents and water charges, as said, we are still increasing the rents for existing customers, contributing 0.8 percentage points for Like-for-Like calculations. These lowering rents and incentives, which we are in some cases offering, had a negative impact of 0.4 per cent. The impact of the occupancy rate, the negative 1.7 per cent, as said this is a backward-looking figure, and we are more concentrated on improving our occupancy and looking forward. In this Like-for-Like calculation, we carry on the situation from Q2 and Q3 last year. That has a strong negative impact on this Like-for-Like calculation as shown in this figure. If you look at how we have been able to improve our occupancy year to date and the good amount of new lease agreements in August, that impact to negative in what is about to change when we look at the future calculations later this year.

Erik Hjelt: Page 13, our investments remained at a low level. For the time being, we are not making any new investment decisions. We have one ongoing development process, 119 apartments, so-called Sentnerikuja Project in Lassila in Helsinki. 119 apartments to be completed during the first quarter of 2026. Gross investments during the first quarter of this year were a quite low figure, EUR 4 million, modernisation investments EUR 2.9 million, and repairs EUR 5.8 million. We estimate that the repairs for the whole year will be broadly in line with last year's figure. The modernisation investments this year are going to be somewhere around EUR 30 million, given the fact that we have started a couple of bigger modernisation investment projects. Fair value investment properties, slightly down 0.5 per cent. There was a limited number of transactions in the market, only one small portfolio transaction. That was broadly in line with the previous transactions, so there is no evidence that the yield requirement has moved during the first quarter. It's clear that the decrease in interest rates reduced the pressure to increase the yield requirements. Because of the limited number of transactions in the market, we kept our valuation parameters unchanged. In the negative outcome, EUR 37.4 million, there are several items included. These items include the impact of net rental income and the aging of the buildings.

Erik Hjelt: Page 15, equity ratio and Loan-to-Value are at a strong level. We have communicated that we aim to do some moderate amount of disposals between EUR 100 and 300 million. We have now booked EUR 280 million worth of assets as held for sale because of the IFRS requirement. There are several ongoing discussions, but nothing more to say at this point. If we are able to finalise or not several of these discussions, then of course we'll release the outcome in due course. In our Loan-to-Value, 44 per cent now includes the assets held for sale, so basically, no changes there compared to the end of last year.

Erik Hjelt: Page 16. We have been active on the financing side as well. We have issued this EUR 500 million bond in March, and together with that, we made a tender offer for the 2026 maturing bond. We were able to repurchase EUR 165 million worth of those bonds. They're still outstanding EUR 135 million in that 2026 maturing bond. This new one is carrying a coupon of 3.875. Our net debt went down to EUR 3470 million. If you combine all these factors, we can now say that 2025 and 2026 maturing loans are covered. At the end of the quarter, we had EUR 317 million in cash and financial assets as well as EUR 375 million in unused committed credit lines which are really unused. Hedging ratios are still quite high, 91 per cent. The average interest rate went up to 3.3. There were several reasons behind that, one is that the bond issue was very, very successful. Nevertheless, the coupon there is higher compared to what we have on average in our portfolio. During Q1, we paid back the remaining part of the 2025 maturing bond, a little more than EUR 400 million. The 2026 maturing bond we made the repurchase of that which was carrying a lower coupon compared to the new one. These factors lead to an increase in average interest rates, 3.3, which includes the cost of derivatives. There have been some discussions regarding the comparability of our figures, because it looks like some of our peers are booking a part of the repairs and modernisation investments on the balance sheet, and only part of them are booked in P&L. We now introduce a new KPI, so coverage ratio excluding repair expenses to make our figures more comparable. Coverage ratio including repairs is 2.5 and excluding repair expenses 2.7. Page 17, our key figures here equity per share and EPRA NRV remained pretty much unchanged compared to the ending of last year.

Erik Hjelt: Page 19, our outlook for this year, we kept it unchanged. We estimate that top-line growth is going to be between 1 and 4 per cent, and FFO is going to be between EUR 135 to 145 million. At the midpoint of the top line guidance, we assume that the rent increases are going to be moderate. The improvement in the occupancy is pencilled in there as well and the fact that we are flexible with the rents. We haven't pencilled in any support from the improving market in this guidance. If you look at the FFO guidance, the range there reflects the top-line growth rate range. Then the midpoint of the FFO guidance, including the assumption of average weather remaining part of this year, and SG&A expenses and repairs in line with what we had in 2024.

Erik Hjelt: Strategic targets, a couple of notes there. FFO against total revenue. It's good to keep in mind that, because of the booking requirements, the whole year's property taxes are booked in the first quarter, almost EUR 15 million. The other thing is the Net Promoter score, very, very strong improvement there in the latest year. As said, Q1 this year was the all-time high figure there. I'm extremely pleased with that improvement in Net Promoter Score. To summarise, our Q1 saw total revenue and net rental income increased, while FFO decreased due to the increased financial expenses. Our occupancy rate has improved since last autumn, and the increase accelerated during Q1. Fair value in investment properties was pretty much at the same level as a year-end, and our financial situation has remained strong. I'm now happy to answer any questions you may have.

Niina Saarto: Do we have any on the line questions we can take?

Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Anssi Raussi from SEB. Please go ahead.

Anssi Raussi: Hi all. Thank you for the presentation. I have a few questions, and I will go one by one. First, about your average rent per square meter which decreased a bit year-over-year. Could you explain a bit what impacted this figure, like, do your campaigns impact this number?

Erik Hjelt: Yes, in some cases we've been lowering the asking rent. In a situation where the apartment has been vacant for a very long time, and we know that there's nothing wrong with the product, and we have tried to find a customer there, and we see that around our building, our competitors have available apartments there with lower rent and what we have in those cases is even lower rents and then the impact of these campaigns. In some cases, we have offered stwo, three, or four weeks vacants period at the beginning of the lease period. That has been the case in the market for several years, and there are much stronger incentives available from our competitors. We do that on a small scale, but yes, that has an impact on the average rent as well.

Anssi Raussi: Got it. Thank you. Then, about your booked fair value losses, which I think were EUR 37 million. Which was the main driver here, and maybe linked to these, 2,200 apartments which are now booked as held for sale, or is it so?

Erik Hjelt: There are several items including an impact in that figure. The impact of net rental change in net rental income, aging of the building, and some other items as well.

Anssi Raussi: Okay. These are apartments held for sale didn't have or were not the main explanation here.

Erik Hjelt: At this stage, we are not able to comment on that because, as I said, they are booked, because of the IFRS requirement. If you are able to finalise those discussions, then of course, we are going to address the impact of those transactions as well, but it's too early to comment on that at this stage.

Anssi Raussi: Okay. Thank you. Maybe one more, did you mention your buffer in fair values before you would hit the 50 per cent LTV?

Erik Hjelt: It's EUR 800 million, around 60 basis points, if only the yield requirement changes. Now, the cash flows are of course improving, but if we only look at the change in yield requirements, it's around 60 basis points. Quite a sizable buffer against that 50 per cent level.

Anssi Raussi: Great. Thank you, I jump back.

Operator: The next question comes from John Vuong, from Van Lanschot Kempen. Please go ahead.

John Vuong: Hi. Good morning, just a follow-up on the question before rents in your market. Are you seeing any change in these lower rents and discounting that your competitors are giving over the past month or two?

Erik Hjelt: It looks like the lowering of the rents, it's not there anymore on a big scale. In that sense, we haven't seen it in the market changes yet, but our approach is now more moderate when it comes to lowering the rents.

John Vuong: Would you say that your apartment rents are now at market rents? Everything in your portfolio is at a similar rent to apartments in the neighborhood comparable.

Erik Hjelt: At the moment, I think we are at the market. Of course, in the big portfolio, there might be one or two apartments that you need to look at to determine the right rent level is there. If we compare our pricing to the general market, we are still getting a premium over what we see in the market. We don't want to get rid of that, but in some cases, it has been justified to be more flexible when it comes to renting. If you combine what we have done on the rent side and what we have achieved on improving occupancy is more than offsetting the impact in some cases, lowering the rents.

John Vuong: Okay, clear. On your comments on the investment market, I think you said it was still a bit slow, you haven't seen any transactions, at the same time, you booked a couple of assets in as held for sale. Was this implying that you're seeing that the market is opening up?

Erik Hjelt: We have communicated that our aim is to dispose of some non-core assets, EUR 100 to 300 million, and that's still our aim. There are several discussions ongoing. We know that there are especially international investors who are looking at the Finnish property market, but why we booked these assets as held for sale, it's more related to the requirement on IFRS.

John Vuong: That's clear, thank you.

Operator: The next question comes from Neeraj Kumar from Barclays. Please go ahead.

Neeraj Kumar: Morning, everyone. I have a quick question on your Moody's rating. How comfortable are you in defending the current rating at Moody's? The reason I ask is because Moody's is expecting the EBITDA is here to land at 2.4 times as a full year 2024, whereas the number came out at much lower, as 2.17 times, so just trying to get some thoughts around that.

Erik Hjelt: When we discuss with Moody's, and what they said in their latest report, they think that the market is improving. They seem to like the company. They appreciate all these actions taken by the company to support the balance sheet and to remain investment credit rating. There are three KPIs that they are especially looking at. One is Loan-to-Value. As said, we have quite a sizable buffer against the 50 per cent level which seems to be the threshold for a Baa2 rating. The other thing is liquidity coverage, and we are ticking that box as well. On the back of this latest bond issue, our position there is even stronger. They are looking at net debt to EBITDA as well. They haven't set a target there, but they concluded that thanks to all these actions taken by the company, net debt to EBITDA is slightly coming down going forward. We have this fixed cost coverage ratio or ICR, as Moody's calls it, fixed cost coverage ratio. In their latest report, they say that in our case, they will tolerate 2.5 times. Based on their calculations, we might go below that, but thanks to all these actions taken by the company, they expect that to recover and go the growth path. The reason why they kept the negative outlook, which has been there quite a long time, is that they want to give the company time to show that this is really crystallising, all these actions. Even if the fixed cost coverage ratio goes below 2.5 times, it will turn to the growth path again. We have set a management meeting with Moody's for August. Nowadays, they visit each company once a year in the rating committee. On the back of this meeting, what has been said, they will take us to the committee. Then, we will hear what the outcome is, but this is the situation regarding the KPIs and how Moody's approaches our figures and situation.

Neeraj Kumar: Thank you. Just a linked question to that. Moody's is also assuming 140 million assets to be disposed of by you this year, which means we should assume you'll be able to sell half of the assets held for sale, which you have classified.

Erik Hjelt: In the report, they say that they are pencilled in the calculation of 140 million disposals this year.

Neeraj Kumar: Thank you.

Operator: The next question comes from Anssi Raussi from SEB. Please go ahead.

Anssi Raussi: Thanks. A couple of follow-ups from me if you may. I think you mentioned that the rental activity has remained at a solid level or maybe even improved in April. How should we think about the typical seasonality this year, because the market conditions are quite exceptional right now?

Erik Hjelt: Well, the seasonality is still there in the market, and it was very, very strong if you look at what happened in the market, and we've been able to move in the other direction, thanks to all the actions taken by the company. In our case, the seasonality is not visible in our figures, but yes, you do see the visible seasonality in the market. Typically, during the summer, the number of new lease agreements is higher compared to other months, and we don't anticipate any changes there if we look at the market.

Anssi Raussi: I understand. Lastly, just to double-check something here. Did you mention that you have increased rents above one per cent in your existing agreements?

Erik Hjelt: Little more than one per cent, yes.

Anssi Raussi: Got it. Thank you. That's all from me.

Operator: There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

Niina Saarto: Thank you. I think we have some questions from the chat. We already touched on the assets held for sale and also the fair value changes, and these items which are included in those calculations, but then a quick question on the transaction market. Do you see any potential motivated or forced sellers, for example, funds?

Erik Hjelt: That used to be the case six months ago or so, but now that these funds are open-ended funds, they are more or less closed right now. They are not paying out to their investors. That's why we don't anticipate seeing any forced sellers or highly motivated sellers regarding that. Other than these open-ended residential funds, there haven't been any distressed or highly motivated sellers in the market.

Niina Saarto: Then, about this Like-for-Like growth, you made progress in occupancy improvement, but the Like-for-Like bridge shows the occupancy effect was negative 1.7 per cent. Can you explain the difference because it was thought that it was Q1 24 versus Q1 25, and then Q1 24 occupancy was lower than in Q1 25?

Erik Hjelt: In this Like-for-Like calculation, you compare figures for the past 12 months against the previous 12 months. It's not quarter to quarter. It's a year to a year or 12 months to 12 months. That's why in these calculations, there are still those figures where you compare Q2 last year against Q2 2023, and the same goes with Q3 and Q4 as well. In those quarters, the Like-for-Like, when comes of occupancy, was quite strongly negative. You are right that the Q1 against Q1 is positive. However, because of these 12-month calculations, you have the burden of these poor quarters in Q4, Q3 and Q2. Now, when comes to the calculations going forward? In Q2, we are going to enjoy the positive trend in our occupancy, and in those calculations, we will drop out the poor quarter, Q2 2024 against Q2 2023. That's why in Like-for-Like figures, you still have quite a strong negative impact on the occupancy, but in real life, our occupancy has been improving. That's why I say that this Like-for-Like calculation is backward-looking, and we are concentrating on what's happened in the future and what we have achieved especially during Q1 this year. This is a tricky one in this type of situation when things are changing very fast.

Niina Saarto: Question on peer SATO, they have reported increasing rents for Q1 and a higher occupancy rate. Is there anything you can comment on or explain?

Erik Hjelt: Yes, the occupancy is higher than ours. We are moving in the right direction with accelerated speed. If you look at SATO's Q1 occupancy and compare it to the Q4 occupancy, it's down by 50 basis points. In that sense, we are moving in the other direction. Yes, the fact is that the occupancy is still higher than ours, but now we are moving in different directions. I'm extremely pleased with the outcome of what we have achieved when it comes to improving occupancy in our case.

Niina Saarto: How is this improvement in occupancy rate, and how is it in line with your FFO guidance?

Erik Hjelt: The top line guidance, 1 to 4 per cent in the midpoint, is the improved occupancy and that of course has an impact for FFO as well. If you compare the midpoint of the top line growth guidance and the midpoint of the FFO, they are in line. If we are able to improve the occupancy, the aim is, of course, to improve it, then that is going to have a positive impact, both top line and FFO.

Niina Saarto: Can you comment on where we stand at the end of the year with regard to the occupancy?

Erik Hjelt: We are not giving guidance regarding our occupancy.

Niina Saarto: How about the cost of debt? Do you expect it to remain stable?

Erik Hjelt: The thing is that this year we don't need to do any additional refinancing because the investment volumes are low. It's all about refinancing, not taking new money in. It looks like interest rates have come down already. Again, I would say in the last month or so. The spread has been quite slightly wider compared to the time when we made our last bond. There's not that much to be happening during this year, given the fact that we have now taken care of all refinancing needs for this year and 2026 as well.

Niina Saarto: Okay. Final question. It's related to the Lumo website and webstore. Do you show all the available rental apartments there? Is it up to date and is it possible to calculate the spot occupancy rate from there?

Erik Hjelt: It's an indication, but you can't calculate the exact figures, because when an apartments become vacant, it takes a little time before it's taken into the web store. Some of our apartments are under repairs, and they are not available in the portals, so you can't get an exact spot figure but, in a ballpark, of course, you can follow what's happening, just looking into those figures.

Niina Saarto: Yes, you can see the trend. Thank you for the very good questions. Next time, we will meet on August. On August 21st, we will publish, then our half-year result. Thank you for joining us today. Now, I wish you all a very good and warm summer. Thank you. Bye-bye.

Erik Hjelt: Thank you very much.