Full Regular Transcription
Heimstaden Bostad
Annual Report 2023

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COMPANY REPRESENTATIVES

Helge Krogsbol, Chief Executive Officer

Thomas Alexander Hansen, Chief Financial Officer

Malin Lethenstrom, Head of Investor Relations

Paul Spina, Chief Asset Management & Development Officer

Christian Fladeland, Deputy Chief Executive Officer and Chief Investment Officer

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Heimstaden Bostad Annual Report 2023 conference call. I'm Andre, the Chorus Call operator. I would like to remind you that all participants will be in listen only mode, and the conference is being recorded.

The presentation will be followed by a Q&A session. You can register for questions at any time by pressing star one on your telephone. For operator assistance, please press star and zero. The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to Malin Lethenstrom. You will now be joined into the conference room.

Lethenstrom, Malin

Welcome, everyone, and thank you for joining us for the presentation of Heimstaden Bostad's 2023 Annual, Governance, and Sustainability Report. My name is Malin Lethenstrom, and I'm Head of Investor Relations. I would like to inform all participants that this presentation is intended only for investors and other financial stakeholders.

Being the annual report, the speakers today will go through a slightly longer presentation before we open to questions. With that, our intention is to provide you with management context and perspectives on the most commonly addressed topics. Following the presentation, questions can be asked on the phone or in writing via the webcast.

And as a note of formality, we will only address questions on Heimstaden Bostad. As always, if the Investor Relations team can be of assistance, please get in touch with us. We look forward to continuing the conversation with you. And with that, I will now hand over to our CEO, Helge Krogsbol.

Krogsbol, Helge

Thank you, Malin. I'm here today with our Deputy CEO and CIO, Christian Fladeland, our Chief Financial Officer, Thomas Hansen, and our Chief of Asset Management, Paul Spina. We will cover a range of topics. But first, I would like to reflect on this period of the transition.

Underneath the headlines over 2023, Heimstaden Bostad delivered stronger than ever operational results, supported by high occupancy and rental growth, industry-leading ESG performance and customer satisfaction figures that we are really proud of. We are strategically positioned to capitalise on the tailwinds guiding the strong outlook for residential real estate, considering the persistent supply-demand imbalances that are set to increase, given the decade-low new developments.

Our quarterly results reflected the underlying fundamentals as the portfolio produced another quarter of strong results. Like-for-like rental growth grew to 5.6%, and then the margin increased to 67.4%, which is an improvement from the Q3 figures of 4.2% and 66.2% respectively.

The privatisation plan is tracking on schedule or even ahead of schedule and launched 2023 produced strong results, including a 32% premium on SEK 1.2 billion of gross sales. In the FX section later, today's call, we've touched upon expectations for 2024.

Our liquidity position remains a key focus area as we continue to pre-fund maturities as part of our prudent liability management. We are entering the year with roughly SEK 30 billion of liquidity, and we continue to access new financing. Liquidity is further supported by the board's unanimous decision to forgo dividends on all share classes. The decision will protect our credit profile while preserving our ICR well within the threshold for an investment grade credit rating.

Finally, we also want to acknowledge the performance from our ESG team, as we remain on track to reaching our long-term climate targets to reduce greenhouse gas emissions by 42% by 2030. In 2023, we have reduced our emissions by 10% in Scope 1-2 and Scope 3.

So with that, I will hand it over to Thomas, our CFO, who will give a brief update on the figures.

Hansen, Thomas Alexander

Thank you, Helge. As per our base case, the portfolio is delivering strong operational results. Our focus remains unchanged, which is to continue to deliver annual growth whilst ensuring high occupancy and stable like-for-like rental income growth.

Overall, our real economic occupancy continued to be both stable and strong as we improved to 98.4% from 98.1% for the quarter. This ends the year consistently being above 98% or a level that we consider to be a measure of good performance.

The strong real economic occupancy trend in our regulated markets continue, especially in Germany, as it reached strong levels of 99.7% for the quarter. We expect the high level in Germany to continue as the underlying supply-demand imbalance persists and supports both short-term and long-term fundamentals.

While limited in impact, it's notable to mention the recovery of occupancy in Finland, where the latest years have seen an oversupply due to high level of new construction. The market situation is expected to balance out, as the number of new housing start-ups plummeted to a low last year. The letting process in the UK has improved due to the onboarding of new builds and high interest in the new assets, and occupancy reached 94.7% for the quarter.

Like-for-like rental income growth performed strongly for the quarter, as we saw a net 5.6% increase over our comparable portfolio. Notably, the gross rent increase of 5.4% has surpassed our weighted core CPI of 3.6%. 2023 has been influenced by increasing vacancy levels when compared to 2022, but the shift has been seen towards the end of 2023, which brings a positive effect on the Q4 like-for-like growth.

Germany produced a like-for-like result of 8.5% for the quarter. The change is partly impacted by timing effects, and looking ahead, we're expecting a good like-for-like performance from Germany at roughly half the current level.

In Czechia, the inflation continues to decline and the portfolio outperformed, with a like-for-like growth of 9% compared to a core CPI of 3.9%. For Sweden, we observed 5.2%, which is above the core CPI trend of 3.3%, showing a clear trend of rental income recovery following several periods of CPI shortfall.

Our underlying margins were strong as we saw growth to 67.4% from 66.2% on a last-twelve-months basis. Notably, our quarterly NOI margins demonstrated a stand-out year as we ended Q4 with a 66% NOI margin, as compared to 60.8% a year ago. The explanation for these positive developments demonstrates our ability to pass on the inflation to an increasingly higher extent.

We have also seen improvements to our cost base, most of which is tracking below inflation. We have deployed a range of cost control measures that include operational efficiencies such as digitalisation and standardisation across the group on key business processes, as well as the integration of the Akelius portfolio. Our aim is to continue to perpetuate the imbalance between our rental trends and cost bases, and we expect to continue to add points to the NOI margin in the year to come.

I now hand it over to Paul.

Spina, Paul

Thank you, Thomas. The privatisation plan continues to scale very well and follows similar routines to letting, which are processes embedded in our DNA. The programme started in pilot phases early in 2023, but began to hit its stride by Q4, primarily in Denmark and the Netherlands. Processes have been optimised, with significantly reduced time to market, ensuring we're well up to speed for the increased sales volume in the coming quarters.

Our operational and commercial focus ensures successful execution of the privatisation plan, where we balance optimising price and ensuring pace, both key factors in supporting the ICR and delivering shareholder returns.

309 units were sold in 2023, 211 of which were sold in Q4. The total sales amounted to SEK 1.2 billion, exceeding our Q4 targets and putting us on track to meet our long-term plans. Those sales realised premiums of 32% to book value and delivered net proceeds of SEK 600 million after accounting for tax, cost and allocated debt repayment. The average sales price of SEK 45,000 per square metre resulted in an implied yield of 2.8% versus valuation yield of 3.4% on the same assets.

The SEK 1.2 billion in sales from 2023 has been transacted across a large and diverse set of assets and locations. This corresponds to SEK 20 billion in asset value, where achievable prices and premiums are now already proven. Those premiums and proceeds will be further crystalised upon turning trends.

With premiums of 32% proven on a quarter of the sales portfolio, this leaves us sufficient headroom to the 20% premium across the entire sales portfolio that we target. The ramp-up plan has been quickly proving premiums and affirming our underlying investment thesis, which is to deliver self-sustainable cash proceeds for deleveraging in a profitable and shareholder-accretive way.

Our target of SEK 20 billion in sales by the end of 25 is firmly on track, as we have thus far executed according to our plan. As of today, we already have enough inventory in the market or with termination notice received to execute on our first half targets, leaving us well positioned as we bring online additional countries and additional assets for the second half of the year, which brings increased volumes in Germany and Norway compared with Denmark and Netherlands.

Transitioning now to CapEx investments, where the flexibility and optionality of our programme is well displayed. Our 24 capex forecast is overall 30% below 23 levels, comprised of a 20% reduction to CapEx on standing assets, while development CapEx will reduce further by 39%. We've increased our yield requirements for value-add and tenant improvements to 10% yield on cost, only executing projects that are immediately accretive to the ICR and other credit metrics. We've also not started any forward or development projects since the first quarter of 22 and continue to deliver on those commitments.

Our value-preserving maintenance spending remained stable over the year and, forward looking to 24, corresponds to our long-term target of 0.4% of gross asset value. We continue to deploy a repair versus replace analytical framework on each and every case basis, always taking long-term value and the cost of capital into account.

Moving to our TI programme, which grew in volume by 1.2% in 23 compared to 22, but the trend has changed significantly throughout the course of the year, in 23. With increased yield requirements being implemented after Q2, going into Q3, we can see that volumes have come off significantly, while the yield on investment has steadily increased. Looking forward to 2024, we anticipate to complete 30% less TI units, but with an unlevered yield on cost of about 11.5%.

Moving to sustainability, where we continue to see fantastic results and good opportunities, forward-looking. Our sustainable investment programme and Science-Based Targets initiative, Climate Roadmap, continues to deliver very strong results, however, without carrying any ongoing forward commitments. We only invest in these projects when they yield over 6%, which is then further indexed with inflation for the coming years.

In 23, we reduced total energy consumption per square metre by 7.5%, year over year, and from the beginning of the programme in 2020, we're proud to report reduced greenhouse gas emissions and CO2 by 10%, well on our way to hit the 42% target by 2030.

And finally, our development pipeline is rolling off into completion, and the remaining commitments to deliver the pipeline are fully funded. In 2023, we delivered 4,526 homes. In 24, we forecast a 39% reduction in spending versus 23 and still deliver an additional 2,957 homes, thus completing the vast majority of spend related to our pipeline and transitioning those assets fully into NOI generation and contribution towards the group's goals.

With that, I can hand it off to Christian.

Fladeland, Christian

Thank you, Paul. Liability management continues to be a key item of ours. We've continued to secure additional funding and improve our liquidity position during Q4 2023. We ended the year with more than SEK 30 billion in cash and available credit facilities. That ensures our maturities until Q3 2025.

On top of that, the privatisation programme which is being ramped up will ensure our independence of any additional funding well into 2026 in terms of the capital markets. While we still maintain to have significant headroom within our secured LTV, which ends the quarter by 31.9% and where we have a 40% maximum target with our investment grade rating, we still have good capacity there, together with around 22% of unencumbered assets.

We got a downgrade in December 2023 from S&P to a BBB-minus with a negative outlook. We had anticipated the downgrade, considering the pressure on ICR, as we also communicated last quarter. What was a surprise to us was the negative outlook, reflecting both continued pressure on ICR, which we feel is well within the BBB-minus threshold, but also a consideration about liquidity.

S&P recognises that we have been very successful in attracting funding in the banking market, amounting to SEK 33 billion over the course of 2023, but also would like to see our independence from the banking market, and thereby, our availability to get additional funding.

With the capital markets being shut down for most of 2023, now opening for some players early this year, we do see that there is a likelihood that that could open for us as well. But we want to maintain independence of the capital markets, and that's the reason for the privatisation scheme and potential, also, additional disposals. We decided to pause dividend on all share classes this year, also reflecting that we want to resolve the negative outlook as quickly as possible. We hope to be able to do that within this year by executing on the privatisation plan.

If we take a look at the market, we are getting independent valuations across all quarters over the course of the year as one of the few players in the space. We saw a decline of 9% over the course of the year, which is reflecting a 14% decline from the peak values that we observed in Q2 2022. When we look at the yield component decline, that would be in excess of 20%, reflecting that we, in the meantime, have had significant NOI growth.

We continue to see a very strong operating environment, with construction activity really having the impact on the supply side now, and we believe that rental growth will continue to exceed inflation in the coming quarters. The shortfall that we have seen for the last six quarters until Q4 23, we believe that that will be well recovered when we get into 2025.

We also started to see a stabilisation in yields after Q4, where it ended with a significant decline in the interest rate curve. We saw interest rates fall by 50 to 75 basis points across almost all tenures, except for the absolute short term of it, reflecting that central banks are expected to pivot during 2024. January started very positive in that respect, with the expectation of six to seven rate cuts across the ECB and the Fed. Now it has calmed down a bit, as it seems that the economy is running stronger, and inflation is a bit more sticky than anticipated. So now, we probably have between three to four cuts priced in, depending on which survey you look at.

We maintain a view that interest rates have peaked, but we are also cautious to what extent that interest rates will actually come down, considering the strength of the economy. For that reason, we also increased the hedge ratio over the course of Q4 in the last month of the year, and we ended the hedge ratio at 86%. That is a way for us to lock in the ICR benefit of the lower rates that we experienced and a further testament to our commitment to ensure that we will fulfil investment grade thresholds with a large certainty.

We anticipate 2024 to be a year with fairly flat valuations. We see more upside than downside bias from that, given that we believe NOI will continue to increase and we don't foresee any mature yield expansion. We also recognise that there is a lot of dry powder out there, in particular, from private equity funds, etc. that have raised capital, but also that there are institutions who have hit their target exposure to real estate. So there are different factors playing in, but we believe that, on that basis, residential will be the winner within real estate.

We had a very uniform both recovery and decline following the financial crisis among real estate sectors, but this time, we really see that residential, in particular, is standing out, and there are particular items that have been a consideration in the commercial space, in particular, offices, where we start to see transactions that are taking place at 30%, 40%, 50% below acquisition prices only three, four, five years ago. This is not only a US phenomenon anymore, it's also come to Europe. We've seen it in Canary Wharf, we've seen it in some suburbs of Paris, and we'll likely also see it across cities in Germany.

If we are looking ahead, our key focus is to restore our rating. We want to get back to BBB flat, and in the short-term, we want to resolve the negative outlook. We need to do that through a deleveraging effort, and we want to carry on the disposal programme announced through the privatisation.

But with the strengthening investment market, we also see that there will be a potential to do investment sales. We have not been against doing any investment sales over the course of 2023, but we didn't feel that the market was worth with significant spreads between buyers and sellers. But now, we've actually started to see transactions across our markets that have been done at price points that we find interesting.

We want to have the ICR improved again, and based on the current interest rate curves, it will bottom out at 1.6. And we want to have a deleveraging impact through the disposals in order to manage that going forward. So you should expect disposal to rather increase than decrease, and it should also be considered that we will increase disposals to extend beyond the privatisation programme.

With that, I want to hand it over for the Q&A.

QUESTION & ANSWER

Operator
We will now begin the Question-and-Answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question. Anyone who has a question or a comment may press star and one at this time. The first question comes from the line of Neeraj Kumar with Barclays. Please go ahead.

Kumar, Neeraj
Good afternoon, everyone. So my first question is regarding the privatisation plan of SEK 20 billion. So what's the estimated free cash flow after accounting for taxes and debt repayments on that?

Fladeland, Christian
Sorry, we've had some sound problems. Would you mind repeating that question?

Kumar, Neeraj

Yes, sure. So regarding the privatisation plan of SEK 20 billion, what's your estimated free cash flow after accounting for associated debt payments and taxes?

Fladeland, Christian
Would that be around the SEK 10 billion?

Hansen, Thomas Alexander
It's after tax.

Fladeland, Christian
Yes, SEK 8 billion after tax.

Kumar, Neeraj
Okay, that's helpful. Thank you. The second question is what's your back-plan for retaining the IG rating if the privatisation volumes were to be slower than the planned? Does that include deferring coupons on your hybrids?

Fladeland, Christian
We don't see that there is any risk in relation to the investment grade rating from a slowing privatisation. Yes, the privatisations are supporting significantly, but we see a significant headroom to the 1.6 ICR, even if it was to slow down marginally. That being said, we want to increase a buffer rather than being dependent on increased privatisation pace. So you should probably anticipate that cut v through additional disposals through investment sales. I don't see hybrid as an instrument in order to navigate the ICR.

Kumar, Neeraj
Got it. That's helpful. And in regards to your refinancing plan, I see that 21% of the portfolio is unencumbered, and I assume some portion of it might be in those JVs with Allianz. So do you have an estimate of how much more secured debt you can take on?

Fladeland, Christian
So in the JV with Allianz, the main proportion of that debt has been intercompany loans from Heimstaden Bostad. So when that is to be refinanced, you can actually use the unencumbered assets in full in order to address that. So we actually see that part of the portfolio as available for encumbered financing as well.

Kumar, Neeraj

So, overall, do you have an estimate, how much more secured debt you can take on from current levels?

Fladeland, Christian

You could say now, practically, we have an 8% buffer between the 40% secured LTV and the 31.9% that we reported in Q4. So that would be 8% of our total balance sheet, around SEK 25 billion.

Kumar, Neeraj

Okay, that's helpful.

Fladeland, Christian

We don't have any ambitions to get close to the 40%, let me just emphasise that, because we want to make sure that we address future liabilities through deleveraging and disposals rather than actually leveraging up.

Kumar, Neeraj

Got it. Probably last question on my side regarding your independent valuations. So you mentioned probably in the last quarter that valuations are showing signs of stabilisation. But in this quarter, we saw more decline as compared to previous Q3. And I think you're referring to stabilisation with minus 1% valuation decline, whereas it was 1.6% this quarter. Given limited transaction volumes, how should one think of these numbers?

Fladeland, Christian

I would say that value declines in Q4 were slightly higher than I anticipated and guided, but it was very much driven by two markets, which we also guided last time were the two markets where we continued to see some price pressure, and that is Germany and Sweden. 95% of the value decline that we experienced in Q4 were due to these two markets, while the remainder was essentially flat or between minus 1% and plus 2%. These two markets are also the lowest-yielding ones and where we see the biggest spreads between buyers and sellers.

So there's no doubt that the lack of transaction activity and the evidence there has pushed yield requirements quite up a bit from valuers. The guidance that we are getting from valuers when we have been doing mid-quarter surveys, as we always do, is that even those markets have stabilised here in the first quarter of 24 after having seen the interest rate decline late 2023, and still standing at lower levels now than we did, on average, in Q4, even though they have come out of it.

Kumar, Neeraj

Got it. That's all from my side. Thank you very much.

Operator

The next question comes from the line of Florent Egonneau with Bank of America. Please go ahead.

Egonneau, Florent

Hi, good afternoon, and thank you for the presentation. Just to make sure I understand clearly on property valuations, you mentioned that even in Germany and Sweden, the first indications from valuers are showing that they stabilised in H1, right?

Fladeland, Christian

Yes, in Q1. Yes.

Egonneau, Florent

In Q1. In Q2, okay. And now switching onto the privatisation programme, given that you're ahead of plan and it seems that the ramp-up is going better than expected, why have you not revised it forward?

Fladeland, Christian

I think it's early.

Egonneau, Florent

Do you expect to ratchet this plan, or…?

Fladeland, Christian

I'll let Paul comment, as he's the main driving seat on the execution. But just a comment from my end is that we are ramping up, with the intention to sell 800 units per quarter. And even though we exceeded the target in Q4, we are still dependent on sufficient churn and depth in the relevant markets. So to say that we will reach a higher level than the 800 units, stabilised, I think it's too early to make that bold statement. But a comment from you, Paul.

Spina, Paul

No, agree. I think what we saw in Q4 was an overperformance versus expectations in Denmark, primarily based on a change in tax regulations coming from January 1st. So we saw quite a good tailwind in December specifically in Copenhagen and Denmark and have returned right back to be on track for the rest. So we're, at the forward-looking, on track to hit the H2 goals for this year, where we think we'll be stable, according to the plan.

Egonneau, Florent

Okay, thank you. And now moving on to your strategy regarding the hybrids. So you mentioned earlier that you don't expect to use them as a flexible instrument to manage your shares. But then how do you expect to tackle the non-call 25?

Fladeland, Christian

So we haven't made any decisions on how we want to manage the upcoming hybrid calls. So we are looking at how is the relative pricing of the hybrids versus our unsecured bonds, what are the alternatives to potentially do an exchange offer, and what alternatives do we have to actually potentially redeem them.

We are committed to having hybrids in our capital structure. So whether it's an exchange or whether it's a potential non-call is not something that we are considering at the moment. Our key consideration is to make what we believe is the right thing from our combined capital structure perspective.

Egonneau, Florent

Okay. And just to confirm what you said, you are not considering a potential non-call?

Fladeland, Christian

We are considering all options at this stage.

Egonneau, Florent

Okay. And lastly, if I may, can you give an update on the negotiations at shareholder level?

Fladeland, Christian

I don't have much to update there. We are still having dialogue with our shareholders and listening continuously to what their wishes would be. As was also stated in the S&P rating update from December, and which we also had in our annual redo with S&P, is that we don't have any time perspective on when this may be concluded. We have an agreement until 2047 which we are managing according to.

So from a rating perspective and a capital markets perspective, we have said that people should look at the plans that we are presenting, that we are in control of, and then any shareholder support or renegotiation will be communicated when and if such is agreed.

Egonneau, Florent

Okay. Thank you very much.

Operator

The next question comes from the line of Michael Chakardjian with BNP. Please go ahead.

Chakardjian, Michael

Hi. Thanks for the call. I had a few questions. Could you tell me the maturity dates on your undrawn liquidity facilities? The next question is you talk about the markets stabilising. How much of a disconnect or a price gap are you seeing between your current appraisal values to valuation yields, on where you think, now that the market has returned to being opened up, you can actually execute? So basically, how much of a write-down would you need to take in order to transact in?

And then the last question was, you talk about wanting to restore your outlook, you're talking about… So essentially, the message I got across is that this is going to be driven by disposals. If the market isn't there or the gap is too big for your liking, what would be, I guess, your plan C? I guess plan A is to do privatisation, but you've got 2.5 billion of committed M&A to do in 1H. So what would be your alternative plan if the transaction market on size isn't open to you? Thank you.

Fladeland, Christian

So if taking the first part on the credit facilities, we have quite a number of facilities with varying dates. They would typically be three-year facilities with a column of extension windows, so they're at varying points in time. But of course, when we are considering the facilities until Q3 25, that of course covers all the ones that are secured, including extension flexibility beyond that point in time. I don't know how detailed we actually provide information on this, but that's something we can discuss more in detail separately.

What was the next question? Then we had in relation to how is the valuation, if I understood you correct, on our balance sheet versus actual market values.

Chakardjian, Michael

Yes, I just wanted to…

Fladeland, Christian

We believe that our valuations are probably some of the most transparent valuations that are out there, and we are getting them externally valued. Of course, when external valuers are valuing in a market with less transaction activity, there's higher uncertainty. But the transactions that we are carrying out, we have also sold some block sales, investor sales, in the smaller scale.

We sold around SEK 400 million of assets at 28% premium, on average. And that reflects that we believe that those were highly attractive to sell, and we also believe that the current value on our balance sheet was actually too low. So on average, I believe that our balance sheet reflects where the market is.

That being said, if you were to go out and sell plus SEK 300 billion of assets in a market overnight, then you would probably have to give a discount. But to do this in a controlled manner, in larger scale, that being SEK 10 billion, SEK 20 billion, SEK 30 billion across the nine markets where we are present, I don't see that there is any discounts to be given. Quite to the contrary. I don't know whether that was implicitly in your question, but I actually read a bit out of it.

When you look at our valuation yields and you compare then with the stabilised yield reported by CBRE, etc., it's important to notice that our portfolio reflects non-stabilisation. So there's a significant rent reversion. So even though our yields have gone from 2.9 to 3.55 since the peak, that actually reflects a significantly larger expansion on a stabilised basis. So there's nothing that is inconsistent between our valuation yields and the yield expansion that you have seen across all broker time series, going typically from 3% stabilised to 4-4.25%.

Chakardjian, Michael

That's helpful. Thank you.

Operator

The next question comes from the line of Oscar Engellau with Bolite Bostäder. Please go ahead. Mr Engellau, your line is open. Maybe you're muted.

Engellau, Oscar

Oh, I was muted. Sorry about that. Thank you. Thank you, and thank you for the call. You said that you were considering all options with regards to the hybrid debt. What would it imply if you did nothing with it, which is also an option, that is, to roll the hybrid debt? How would that impact your ICR and LTV profile from a credit rate perspective?

It's my understanding that all hybrid debt would then be treated differently by the raging agencies. And so I would've thought that not calling or doing anything with the relevant hybrid debt that is now coming up in November 2024 would then have a meaningful negative impact with regards to your credit rating. And if you could bring some light to the whole situation for me. Thank you.

Fladeland, Christian
So if we were to non-call an upcoming hybrid, that would, of course, make that as full debt from a rating perspective, meaning that the cost of that would be directly into our interest cost and we would not have the equity content from an LTV perspective. But it would not impact the other hybrids' qualification. That would only be subject to the individual call dates.

When we are making our forecast in order to make sure that we fully prioritise our capital structure, there is no doubt that there's a big incentive to do something with the hybrids, because having debt at plus 300 basis points in spread is more expensive than any debt that we have. So there is a significant incentive to do that from a credit metric perspective.

But for our forecasting and for our liquidity management and planning, we are also running the scenario that it will turn into debt after the call date. But there will not be any spillover or contagious effect on the hybrids with a later call date if we don't call the upcoming one from a credit rating perspective.

Engellau, Oscar
Right. So they're treated separately. Thank you. And also, you said in one of your earlier calls, I think you mentioned something similar now, that hybrid debt is considered expensive debt. And I think you also said that you were focused on reducing that level of expensive… The amount of expensive debt. Does that still hold true then?

Fladeland, Christian
That still holds true. So hybrid is an instrument where we need to manage within the flexibility we have on it. We consider that it's expensive debt per today, but we also need to make sure that we replace it with a proper similar instrument if we go that way, whether that's an exchangeable to a new hybrid series or whether that's full equity contribution. But it's not like we have the same

flexibility as just replacing it with liquidity from our own balance sheet. So you're correct that there's a big incentive for making some solutions on the hybrids.

Engellau, Oscar

Right, thank you. And I have a final question with regards to the hybrid debt. I think you said on a previous call something broadly on the lines of that the pricing of the hybrid debt, which at the time was pretty low, could be an indication of the chance or, call it, company willingness to repay this debt. Does that relationship still hold true? And if so, that would imply that the chances of repayment of the hybrid debt has now significantly increased on the back of much higher recent screen prices.

Fladeland, Christian

I think what I said was that when you have a perpetual instrument, it, of course, has a very long duration per nature, and thereby, quite price sensitive. And when you then have the hybrid coupons that are significantly lower on our instruments than our screen prices on unsecured bonds, then I don't think that it's particularly strange that there is very low screen prices on the hybrids. Now, we have seen our unsecured bond screen prices also come down with the wider market, even though it's still not attractive for us to pursue. And I think that's the reason for the hybrids also having recovered.

Engellau, Oscar

Right. Okay, I understand. And one last question, which is not related to that, is you mentioned and talked before about potential equity injections from main shareholders, and you didn't really have an update. But would you say that you are closer to that now than compared to six to nine months ago, or is it the same situation?

Fladeland, Christian

No, I would not say that we are closer to that than we were six to nine months ago. I think that there has been quite some shift across the organisation among some of our shareholders. So even though we have good dialogue, we need to align on how the structure should be, going forward. And the timeline for doing that is simply too uncertain so that I want to guide anything. I have tried to guide that during our Q2 earnings call, where I said before year end 23, and now I have stopped guiding anything. Yes.

Engellau, Oscar

Okay. Thank you so much. That's it from me.

Operator

The next question comes from the line of Othman El Iraki with Fidelity International. Please go ahead.

El Iraki, Othman

Yes, hi. Thank you for taking my questions. Just a follow-up on the hybrid. So you said you paused dividend this year to protect the rating and also boost liquidity. In your toolkit, would you consider pausing the interest on the hybrid, because you can do that, or is it something that you're not prepared to do to boost your liquidity?

Fladeland, Christian

I would say that we would have to be in a very stressed liquidity situation and have definitely gone through a significant disposal process before we would consider that. We don't think pausing the hybrids in an investment grade company is compliant with the way that we want to navigate our capital structure. So I find that very unlikely.

El Iraki, Othman

Okay, that makes a lot of sense. Okay, thank you.

Operator

As a reminder, if you wish to register for a question, please press star followed by one. The next question comes from the line of Tomas Mannion with Sarria. Please go ahead.

Mannion, Tomas

Good afternoon. Just in relation to the access to the secured market, in previous calls, you've indicated rates available in the German and Danish markets and how they've actually widened out. Can you give us an indication of the depth of the secured market in your regions? And although you have theoretically got access upwards of 40%, how willing is the process, what's the time process for actually arranging facilities in the various regions? Thank you.

Fladeland, Christian

So you are correct that pricing had gone up across our markets in terms of asset-backed funding. I would say Denmark is probably still the one that is most resilient. That is actually probably the only market that is still quite flat. In Germany, we have seen that liquidity premiums, etc. have increased, so there, where we were probably at 100 to 110 basis points 12 months ago, we are probably closer to 130 to 150 basis points, on average. But that's probably the range.

The remainder of the market was a bit quicker to adapt, so if you look at asset-backed funding in Sweden, the Netherlands, Norway, they have been at 180 to 200 basis points throughout the last 12 months, and we've not seen any particular move there.

In terms of time for arranging financing, it varies slightly between markets. Where it's most efficient, I would probably say it's around eight weeks, six to eight weeks. And then it might go up to three to four months if you take the more structured syndication financing processes in larger scale, in particular, in continental Europe, being Germany in particular.

Mannion, Tomas
And have you had any discussions with bondholders about trying to access the unsecured market? I understand it was pretty difficult last year, but have you initiated any discussions?

Fladeland, Christian
No, not as of now.

Mannion, Tomas
Thank you. Thank you very much.

Operator
The next question comes from the line of Silvia Duranti with GSAM. Please go ahead.

Duranti, Silvia
Hi, good afternoon. Thanks for taking my question. Could you please help me understand a bit better the net receipts of the privatisation plans? You mentioned, out of the SEK 20 billion, SEK 8 billion after tax. Is this also before debt repayment? Just asking, because S&P has included a haircut in book value but also in the volume, I think around 5-6 billion of disposals in 2024, and then 6-7 billion annually in the years after. So how does this assumption align with this net proceeds assumption used for the debt repayment and also your ambition to stabilise the outlook? Thank you.

Fladeland, Christian
So S&P has full insight to our assumption on net proceeds, based on both our book value, assumed sales prices and the allocated asset-backed funding to the assets and the corresponding tax. So the haircut that they have applied, I would have anticipated that that is directly applied to our net

proceeds or, alternatively, our gross sales value, netted after tax and debt. So there should be fully consistency on that basis.

Duranti, Silvia

Okay, got it. Thanks. And can you elaborate on the potential investment sales you mentioned, which locations are regulated, and regulated market preference if you will go into that direction?

Fladeland, Christian

We have not made any firm view on where there's a market that we are willing to, or more interested in selling in or not, from our investment sale perspective. In the markets where we have large exposure, we would be able to sell assets without losing any particular scale benefits, so you could say the markets where we have large exposure would probably be quite obvious to consider.

Then there is no doubt that we are very focused on supporting our ICR, so to sell our highest yielding assets would be a bit painful in that respect. But all this would balance on where we see we get the best pricing and the most efficient fee above liquidity. So I cannot be firm on where it would be, but I think the markets where we have larger holdings and where we have a lot of scale benefit even after a sale is probably more likely than a smaller market.

Duranti, Silvia

Okay, clear. Thank you very much.

Operator

We have a follow-up question from Michael Chakardjian with BNP. Please go ahead.

Chakardjian, Michael

Hi, just a quick question. There were some extra FSA investigations into some of your other shareholders, outside of Alecta, or even questions. Have you seen any change in how they've responded to you or in terms of, say, commitment to future equity raises? Anything you can share on that? Thank you.

Fladeland, Christian

No, the investigations by the Swedish FSA among some of our regulated shareholders is something that is on shareholder level, so not something that we've been directly involved in. This follows the significant focus that was on our largest institutional shareholder last year, and I think it's quite natural that the Swedish FSA wants to see how the process has been at the other institutions. I don’t have any comment, whether that impacts their ability or willingness to potentially support with equity.

Chakardjian, Michael
Okay, thank you.

Operator
That was the last question. I will now hand over back to Heimstaden for any closing remarks.

Lethenstrom, Malin
Thank you, Operator. With that, we will then conclude today’s call. If you have any further questions, please don’t hesitate to reach out to the Investor Relations team. And thank you again for joining us, and have a good rest of the day.

Operator
Ladies and Gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

- END -