

Full Regular Transcription

Heimstaden Bostad AB

Q3 2023 Results Conference Call

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COMPANY REPRESENTATIVES

Helge Krogsbøl, Chief Executive Officer

Christian Fladeland, Deputy Chief Executive Officer

Thomas Hansen, Chief Financial Officer

Malin Lethenström, Head of Investor Relations

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Heimstaden Bostad Q3 2023 Results Conference Call. I am Sasha, 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 question at any time by pressing * and 1 on your telephone. For operator assistance, please press * and 0. The Conference must not be recorded for publication or broadcast. We will now be joined into the Conference room.

Malin Lethenström,

Good morning, and thank you for joining us for the presentation of Heimstaden Bostad's financial results for the third quarter of 2023. My name is Malin Lethenström, and I'm Head of Investor Relations. I would inform all participants that this presentation is intended for investors and other financial stakeholders only.

Today's speakers go through a brief management presentation, before we open to questions. Questions can either be asked on the phone or in writing via the webcast, and as a note (unintelligible), we will only address questions on Heimstaden Bostad. As always, if the investor relation team can be of assistance, please contact us. We look forward to a continued dialogue with you.

With that, I would now handover to the CEO, Helge Krogsbøl.

Helge Krogsbøl,

Thank you Malin. Hello everyone, and thank you for listening into the third quarter review for 2023. I am here today with our Deputy-CEO, Christian Fladeland and our Chief Financial Officer, Thomas Hansen.

Yet another quarter, we see that the fundamentals of residential real estate remain intact. This is documented by a very solid Q3 operational results, where our portfolio continues to build upon strong underlying trends. We have a high real economic occupancy of 98.1% and the durable and real margin growth of 69.6% made possible of the gross like-for-like rental growth of 4.9% alongside a disciplined cost focus throughout the business.

We will continue to focus on managing our financial risks by maintaining a strong liquidity position, and be at the forefront of any of upcoming maturities. Our asset backed financing team has closed big volumes this quarter which equals to 13 billion SEK on new funding in Q3 alone. Christian will speak more on the matter in later slide. But the volume of new funding is worth highlighting as the team has closed 27.8 billion SEK year-to-date and 50 billion SEK in the last 18 months.

Today we are announcing a supplemental strategy to further strengthen Heimstaden Bostad's financial position, and that is privatization. This is a new perspective that utilize a multi-year approach involving individual unit sales to the private home ownership market. Christian will explain it more in detail during his section, which includes our rationale, target volumes and markets as well as our time horizon.

I also want to use the opportunity to congratulate Christian for his new role as Deputy CEO. Many of you in the market know him well, and I appreciate his transparency and willingness to speak to our investors whether it's bilaterally, in a Conference or in person.

But first, I hand it over to Thomas who will give a brief update on the Q3 figures.

Thomas Hansen

Thank you, Helge. Our portfolio continues to deliver strong, operational results which can be attributed to the disciplined work provided by the operational teams. Our operational focus remains unchanged and continuing to deliver NOI growth with the key priority. This requires us to continue to perform with high occupancy levels and deliverable increases while generating key cost control measures. Real economic occupancy continues to exhibit a stable churn as we sustain the level of 98.1% for the quarter.

Some notable countries to highlight on a quarterly basis. The strong occupancy trend in our regulated markets continue as Germany reached high levels of 99.2% for the quarter. We expect similar figures for the remainder of the year. With support from the Czech government, we provided 750 emergency apartments for Ukrainian refugees. As the government adjusted the program this summer, we proactively engaged Ukrainian tenants and succeeded in transitioning 73% of the households from social contracts to regular lease agreements. A great step towards successful refugee integration into local communities and the transition had minimal impact on our occupancy rates.

We note especially the letting in Poland with the recent delivery of new developments is reaching high occupancy numbers of 97.1% for the third quarter. Like-for-like, rental income growth performed well for the quarter as we saw a net 4.2% increase over our comparable portfolio. Ultimately, the gross rent increase of 4.9% is closing in on the core CPI of 5.1%. However, as we saw a small increase in vacancy towards the end of last year, we have a negative development from vacancy effects of 0.7%.

Going forward, our ambition remains to increase rents in accordance with core inflation, all while maintaining a balance to ensure tenant affordability. And that the negative impact from vacancy will decrease as the vacancy of our portfolio for this metric will have stabilized in the coming periods.

Looking to country specifics, we saw continued strong development in Czech with growth above 10%. Here, the core inflation has dropped in the last 2 quarters, it is now below 6%. From Norway, we observed core inflation of 6.1%. This ran in parallel with our like-for-like growth of 6.3% for the quarter. And finally, in Sweden, the growth continued at 4.8% like-for-like. This is driven by negotiations with the local tenant associations as well as value accretive tenant improvements upon churn.

I'm pleased to see that our NOI results follow our expectations as we saw growth to 69.6% on a quarterly basis and 66.2% on a last 12 month basis. As seen in the like-for-like figures, this growing margin continues to demonstrate our ability to pass on the inflation at an increasingly higher extent.

The impact of the quarter does see some seasonality impacts due to weather, as different markets get impacted differently of utility charges. Denmark showed good development of 1.9% stemming from a slight increase in occupancy and annual indexation in part of the portfolio.

I now hand it over to Christian.

Christian Fladeland

Thank you very much, Thomas. We have continued to source asset-backed funding in order to cover our upcoming capital market maturities. As Helge earlier also referred to, we have secured 60 billion SEK over the past 18 months and 13 billion SEK during the third quarter. This is very much driven by the 700 million Euro commitment that we got in the Czech Republic where we took out our first asset-backed funding via a consortium of banks. We will continue to pursue asset-backed funding in order to de-risk our maturity furlough ahead, but right now our liquidity position with the most recent commitments will secure us until Q2 2025.

Looking at our key credit metrics, we have continued to see a compression in the ICR as we had anticipated. We are now standing at 1.8 according to the S&P definition. We see that we are able to stabilize it around this level, of course with the uncertainty around how the term structure will develop from here where we have seen an upward pressure in the forward curve recently.

Our S&P LTV increased moderately by 0.6 percentage points driven by the reduced value fall that was experienced during the third quarter. The value falls have been very differentiated across the markets this quarter where we in the previous quarter saw that most market was falling moderately. This quarter there has been a stabilization across most of the markets and then we have seen Sweden and Germany taking some larger falls this quarter compared to previously.

The privatization plan that we started to outline a bit already in our Q2 earnings call has now become much more concrete. We have started to reorganize our local teams in order to be able to execute on this in large scale. It's important to define what we mean by privatization as this is not a normal reference within residential real estate. It refers to selling individual units upon tenancy, meaning that we are only selling the units upon tenant voluntarily churning so we have to wait for that, and it's not such that we are divesting full blocks. It's not depending on the establishing owners associations like we see in Sweden unintelligible). This is something that is fully flexible to do by transferring the title of individual units.

The gross volume of the scheme amounts to more than 80 billion SEK and 26,000 units which we intend to sell across 5 markets. We assume that we'll be able to sell around 6,000 units by the end of 2025 where there will be a quite steep ramp up period over the next 4 quarters after which we assume that we'll be able to sell around 800 units a quarter across these markets.

All the proceeds will be allocated to tech service, that being, de-leveraging efforts in order to support our credit metrics across the board.

That was it from my end. Now, we will open up for Q&A.

QUESTION & ANSWER

Operator

We now begin the question and answer session. Anyone who wish to ask a question or make a comment may press *and 1 on their touchtone telephone. You will hear a tone that you confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press *and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question or a comment may press * and 1 at this time.

The first question is from Neeraj Kumar with Barclays. Please go ahead.

Neeraj Kumar

Morning, everyone. So, my first couple of questions are around the shareholders. So, I just wanted to know if there is any redemption request from any of the institutional shareholders, and if there is any, how do you plan to address that?

Christian Fladeland

There are not any redemption requests from any other institutional shareholders at this point.

Neeraj Kumar

Okay. Great. That's helpful. Secondly, I see that the share of Heimstaden AB has reduced to 36.3% from 37.5% in H1. Is it possible to provide more color on that?

Christian Fladeland

That is due to the share combination between the shareholders. So, we have the common shares and we have the B shares, and when you're seeing a value decline, there will be a preferred return accruing to the B shares while the common shares will take the residual head, and given that Heimstaden AB has a larger share of the common shares, that is leading to the deteriorating ownership stake.

Neeraj Kumar

Got it. That's helpful. And probably my last question is around the ICR. As you know, it's close to 1.8x, which is the downward threshold from S&P as well. How do you plan to stabilize it around that level, if you may provide clarity on that?

Christian Fladeland

As we communicated in the Q2 earnings report, we have now initiated our disposal plan, which have now been launched during Q3, where we have already seen very successful results already, but in terms of magnitude, that is only something that will really kick-in in the coming quarters. We continue to have dialog with our shareholders in order to discuss a potential equity injection as well, but for now, we are focusing on doing whatever we can organically within the company, and that is carrying out these disposals in order to support both the ICR and the LTV.

Neeraj Kumar

Got it. Just to clarify. So, the... any potential profits from the privatization plan wouldn't factor into the S&P ICR calculation, right? Because, I mean, I'm asking this because I've seen for one of the largest German (unintelligible) players that S&P reported their ICR excluding privatization, and also just wanted to inquire if the treatment is going to be different here or is it going to be the same as other players?

Christian Fladeland

We are having a constructive dialog with our S&P analysts, and it's correct that per the pure definition, it's not included. But given the fact that we are allocating it fully for debt servicing and addressing upcoming maturities, we are very certain that there will be a positive impact from this in relation to the S&P view on our credit metrics.

Neeraj Kumar

Got it. And probably the last question, in terms of your unencumbered asset, do you have any sort of indication on where it is currently, because I remember it was around 36.7% as of Q1, and I haven't seen any further release around that. So, if you have any numbers to share on that?

Christian Fladeland

So, our percentage of unencumbered assets, I don't have that at heart. We now have a secured LTV at 29.1%. So, we have very decent headroom within both the metrics of our bond program of 45% covenant, and the 40% threshold by S&P, but the share of unencumbered assets, I think we would have to revert on that ones.

Neeraj Kumar

Okay. That's all from myself. Thank you very much.

Operator

The next question is from Florent Egonneau with Bank of America. Please go ahead.

Florent Egonneau

Good morning. Thanks for taking my questions. I have 3, if I may. First, on property valuations, what do you expect for the rest of the year, please?

Christian Fladeland

We expect to see a stabilization continue across most of our markets. We would assume that there will be another moderate decline in Q4 on an aggregated basis, and that would be driven by continued pressure on property values in Sweden and Germany, which we also saw during Q3. On an aggregated basis, we believe that there will be a less decline than we saw in Q3, but that it would still be slightly negative, and that it would be driven by these 2 months.

Florent Egonneau

Okay. Thank you. My next question is on this interest cover. So, the person before asked about how you plan to stabilize. Where do you think is going to show off because before it was around 1.8 times, would it go below that level? And would that trigger lot of corporate action?

Christian Fladeland

So, we are committed to try and defend the 1.8, and that we are doing through the disposals that we're making, and by continuing to deleverage. There is a cost of risk that it will fall below 1.8, both because we have the scaling-up effect and the fact that we have... it's a backward looking figure. So, it can definitely not be ruled out that we will get below 1.8. And if that happens, it's, of course, up to S&P to evaluate whether they believe that this is on a sustainable basis or they believe that the actions the company is taking together with potential action by the shareholders, is sufficient to fulfill their criteria for maintaining the flat rate.

Florent Egonneau

Okay. And regarding the capital injections, can you please repeat what you said about initiating negotiations? I couldn't quite hear what you said earlier? Sorry.

Christian Fladeland

So, we are having dialogs with our shareholders in relation to a potential equity injection, as has also been presented in the media.

There is discussions, and we are discussing under which terms that that might materialize, and that's something that we assume to get clarity on over the course of Q4, but it might be... at the end of the year and it might also slip into the early next year.

Florent Egonneau

Okay. Thank you very much.

Operator

The next question is from Mary Pollock with Credit Sights. Please go ahead.

Mary Pollock

Good morning. Thanks for taking the questions. With regards to the privatization, I think you mentioned in the release, you're focused on 5 markets. Can you specify which 5 markets those are, I know, it's been reported in the press, likely, the Netherlands, but what are the other 4?

And again, can you just walk me through how you think about the pace of those executions, like, should we think about it literally once you've ramped, so say, from 2Q next year, or is it going to be pretty unpredictable quarter-to-quarter, how quickly that comes through?

And then the like-for-like growth is slowing. I was surprised by that. I know you are pointing to occupancy, but is there anything else there that we should be thinking about, and any guidance for like-to-like growth through the end of the year, is it going to slow again? And then any update and how you're thinking about Kojamo stake? Thanks.

Christian Fladeland

Super. Let's see whether my memory can handle the 4 questions, so maybe I'll ask you to (unintelligible). But if we start with the first... the markets. So, we are targeting Norway, Denmark, the Netherlands, Germany, and Finland. And the largest volumes will be allocated to Denmark and The Netherlands. So, that's the 5 markets that we target. And the basis of that is, first of all, how the units are split into condominiums, i.e. the flexibility in selling them, and also how accretive it is considered from a profit perspective.

In relation to sales pace, it varies a bit across the markets, given that we need tenant churn to materialize, if you take the markets where we have the highest churn, that being, for example, unregulated assets in Copenhagen, that we might see a churn of around 20% to 25% in our stock, while in the Netherlands it's mainly regulated assets where we have 10% to 12% churn.

So, there will not be... if you take over 8 year period, which we would assume that it would take to divest most of this bucket, we should not anticipate to be linear you should anticipate most of it being in the earlier years where the higher churning markets is contributing a lot, and then you would have a more tail in the later years. But that is already reflected the 20 billion SEK that we estimate by the end of 2025, that there is a ramp-up where we have now stopped re-letting and those are coming to market. We have 600 units already that are either vacant or as our sales are moving out in the coming months that will come to market, and that will only increase over the course of 2024.

Okay. Then I forgot your third question, but I remember the (unintelligible)...

Helge Krogsbøl

The like-for-like growth.

Christian Fladeland

The like-for-like growth. Yes. You're correct. That came in at 4.9% on a gross basis, but had a negative contribution from a vacancy of 0.7 percentage points. It's a bit counter intuitive to think about given that we are actually seeing improved occupancy across most of the market in recent quarters, even though we have blended flat at 98.1%. But when we compare it to Q3 last year, there has been an increase in vacancy due to a negative occupancy development, in particular in Denmark, after taking over new developments in Q4 last year and Q1 this year. So that is an impact that we believe will be, or we are certain that that would be neutralized in the coming quarters based on the leasing momentum that we are seeing in these markets.

The 4.9% on a gross basis is also a slight slowdown from the previous quarters, but reflects quite well what we've also seen in Q3 last year, that we don't have that many indexations kicking in that quarter. So it's much more driven by the rent reversion that we can attract by (unintelligible) , as well as when we upgrade the units. So, the 4.9% is not something that we're worried about.

That being said, as we see inflation rates coming down, we don't have the same positive impact from the indexation as we had in previous years. So, the indexations that we've seen earlier this year was very much driven by the CPI that was going on in 2022. And now that we see that the CPI is luckily coming down, that would also impact our like-for-like rental growth in the coming quarters.

Helge Krogsbøl

Good idea. And just on that... actually, there is an increase because if you look one year back, there was the occupancy effect was the opposite way. So it was 4.7 and now it's 4.9. So it is an increase. And as... like you were saying, there is some seasonality in it. So I think it's quite strong numbers.

Christian Fladeland

And then Kojamo stake...

Mary Pollock

Yes, no, thank you. That's very helpful. But the Kojamo stake would be great.

Christian Fladeland

Yes, the Kojamo stake is still what we consider to be a strategic investment for us. We definitely believe that the current share price is unjustified compared to our view on the intrinsic value of the company. So that's the stake that we definitely continue to keep at this juncture.

Mary Pollock

Great. Thank you very much.

Operator

The next question is from Peter Yu with Wellington. Please go ahead.

Peter Yu

Hello, can you hear me?

Christian Fladeland

Yes, you're fine.

Peter Yu

Great. Thanks. Hey, so just a quick question. I don't know if you can give any more color on sort of how discussions on the equity raise is at this point. So you've now given a bit more color and evolved a bit more of that discussion on the disposal plan. And I guess from my prior understanding, was that the equity raise would sort of be dependent on that. But this disposal plan is quite back-ended to a certain degree. It's over a very long period of time and there's clearly a lot of execution risks. I mean, it's hard to say what's going to happen in the next couple of years.

So I don't know if you can give any more color on sort of how this equity raise discussion is now post this plan being presented and what we should be thinking about the likelihood of something like this.

Christian Fladeland

So maybe I would answer the question in the reverse order and then I'll get to the equity raise. So in relation to the privatization plan, you're correct that it takes time to carry out because we're dependent on the churn. On the other hand, we feel that the execution risk of this is materially lower than you would see if you were to go out and sell a lot of investment properties. So even when the ownership housing market has come down in Denmark or the Netherlands during 2009-2010, they never collapse and there might be a price impact of 5%, 10% or even 15%. But when we look at the premiums that we realize, it's a lot of buffer before it would come with any loss to our book values.

And we have liquidity that is very predictable, even when they come down. So it's not like the transaction market where you suddenly can see a 70% or 80% reduction in transaction volumes. So even though we don't rule out that we would do larger scale divestment, if we believe that the market opportunity is there to do that in a creative manner, we don't want to be dependent on that in a market where we see that there is significant (unintelligible) and we still feel that our sector has very strong fundamental tailwinds.

In relation to the equity support, I cannot comment on the likelihood of that materializing or not. We have been quite actively out in this quarter stating that we don't need capital. And when we saw that we don't need capital, that referred to our need for actually addressing our upcoming maturities, liquidity, covenants, et cetera. But we do have an ambition to do what we can in order to defend and maintain if we will be rating longer term. And that is at risk if we don't get any new capital in. And that's the discussion that we're having with our shareholders. I cannot put any likelihood on that, but only refer to that something that will surely have to be concluded over the next 3 months, because if not, then it's purely dependent on the privatization plan. And then we need to rely on that.

Peter Yu

Okay. That's helpful. And I guess, maybe you can't comment on the likelihood of sort of equity raise, but what are the sort of discussion points that your equity holders are sort of discussing that we should be thinking about? It feels like from some public comments that elective are also understanding that there needs to be a capital injection at some point, potentially, to keep the rating.

So it feels like there's agreement on that. And it's just trying to understand what other variables there are at play we should think about.

Christian Fladeland

There is definitely a need for deleveraging in order to maintain the rating, that's sure. And if we are not able to execute swiftly enough on a privatization plan, then new capital will be needed in that respect. There is no covenants or anything from the shareholders to maintain a BBB flat rating. We have been committed to be an investment grade company. We've been outstating that we want to defend the BBB flat rating. But it's up to the management to make a plan for that that we are in control of. And that is the privatization plan. And then we are having the dialogue with the shareholders in order to evaluate on how they would prioritize in order to come with new capital, to make it more certain that we can maintain that rating. There has been a lot of discussions in the media in this respect, and we feel that there is a much better and much more direct dialogue in practice than what is described in the media. But we haven't gotten to a position where we can communicate anything concrete in relation to that.

Peter Yu

Okay, cool. That's helpful. Great. And if, let's say, the privatizations are kind of a bit slower, or maybe I don't know how much confidence you have on, but let's exclude privatization so far. Just based on sort of the refinances you need to do and the visibility you have on that, where do you think ICR could be by mid-'24, because you mentioned sort of stabilization of the ICR at 1.8 times, and it's just trying to understand if there is no privatizations, where could that get to? And so, how dependent you are on privatizations to support that ICR at around 1.8?

Christian Fladeland

There is no doubt that given that it takes time to deleverage via the privatizations, we need that profit as a part of supporting element. If we look purely at our hedge portfolio, and if you look at how we anticipate to grow the EBITDA, then we will fall below 1.8 during 2024 with the current forward curve. We still believe that there will be a very good headroom to any investment-grade thresholds, so there is not anything that is at risk in that respect. This is only a consideration in relation to defending the BBB flat rating.

Peter Yu

Okay, that's good. Okay. And just on the Fitch, they've recently given an update where they seem to be a bit more cautious with existing rating, the credit watch negative, and a lot of it depends on sort of your messaging on privatizations and equity raise.

Have you had any more recent conversations with them, or is it still kind of given the results yesterday to the plan to sort of have a longer dialogue within, in the next few days and weeks?

Christian Fladeland

We recently had update calls with Fitch as well, and it's the pressure point on the ICR that is driving this rating watch negative. So, it's a quite joint topic at present. Defending the ICR is key to maintain the current rating.

Peter Yu

Okay. And the final one is just on the financing activities that you've done. Can you give any color on sort of how margins and maybe sort of the LTVs that the banks are willing to lend might have changed in the last couple of months?

Christian Fladeland

I don't think that there has been any change in the pricing compared to what we communicated in the last quarter, or there hasn't. I would also say that the LTV has been approximately the same. There might of course be some of the lowest yielding markets where the debt service coverage ratio has taken (unintelligible) a hit, given the most recent increase in interest rates, but that would be marginal. So, I would still say as a general consideration that we're getting LTVs between 40% to 50% across our markets as a general rule of thumb, and margins standing between just up 100 basis points in Denmark as the lowest, Germany 100 to 120, maybe up 130 basis points in some top-up financing. And then you have the more traditional bank markets in Nordic, Sweden, Norway, The Netherlands where you are closer to 200 basis points... 175 to 200. And then you have the CE where you're typically between 200 to 250 in margin.

Peter Yu

Okay. Perfect. Okay. Awesome. Thanks a lot. Thanks, Christian. Thanks.

Operator

The next question is from Tomas Mannion with Sarria. Please go ahead.

Tomas Mannion

Good morning. Just to follow-up in relation to your discussions with your equity partners, have you had any discussions where you would sell a portfolio of assets to one of your equity partners... equity holders, institutions, i.e. that way you would also bolster liquidity and you may even continue to have the contract over managing the assets? Has discussions in relation to an equity injection just been purely equity injection, or have you looked at other opportunities?

Christian Fladeland

We have not looked at those opportunities for now the discussion is just going around pure equity, but I can of course not rule out what would happen in the future. We would also be open in general to sell portfolios to support our rating if we believe that the terms is right, whether that's in a third party sale or whether that would be to a shareholder.

Tomas Mannion

Thank you.

Operator

The next question is from Thierry Cherel with Natixis. Please go ahead.

Thierry Cherel

Hi, do you hear me?

Christian Fladeland

I hear you well.

Thierry Cherel

Okay, perfect. Thanks to take my questions. First, I would like to know what's the long-term NOI margin you are targeting on the different countries, please?

Thomas Hansen

The long-term margin at least for 2025 is 69% on the NOI that's across older markets.

Christian Fladeland

And varies quite a bit across the markets given that you have such material different legislation and cyber portfolios.

So we definitely believe that we will be able to continue to increase it from that going forward, but it will be as we stabilize our portfolio which has significant rent reversion and we fade out the synergies.

Helge Krogsbøl

And we will also debate on what... how the current state of the properties will be. If you grow in countries like Germany, it's easier to grow your M&A margin than if you do within Sweden. So it's country specific but as a general approach. We have growth expectations coming by the next couple of years.

Thierry Cherel

Okay. Perfect. So we could have the assumption of Sweden catching up with Germany in term of margin?

Christian Fladeland

It would never catch up fully with Germany given that you have utility cost et cetera on the land law, and in Germany also had the service charges so it will never go to that kind of level. In Sweden, it also ranges between regions because given the regulated nature if you are in an I would say a regional city like Linköping, and you have a rent of 1,500 SEK per square meter fully stabilized and you have 1,900 SEK per square meter fully stabilized rent in Malmö, then there will be a higher leakage in Linköping, because there is the same cost of operating the assets, approximately. So, there will be quite a big difference across that board, but in particular, where we have a lot of rent potential to utilize, you will continue to see an improved margin over time.

Thierry Cherel

Thank you very much. Regarding the yield requirement, I've read this morning on Bloomberg that you mentioned, I don't know if it's right or wrong, but stating that Heimstaden is saying that prices are stabilizing. Do you share this view? Do you think it's now the latest write-off we've seen on Q3?

Christian Fladeland

I think stabilization, to me is not whether it's down 0.5% or 1%, but it's within the minus 1% and plus 1%, and we see that stabilization across most of our markets. There are 2 markets, as mentioned earlier, where we continue to see pressure, and that is Germany and Sweden.

When we look at our portfolio as a whole, we still believe that combined that we from Q4 will continue to see a stabilization, i.e., we will see less value fold than we have seen in Q3, which was less than we saw in Q2, which was less than we saw in Q1. But that we will get to 0% in Q4 is not something we anticipate, but it could be minus 1% or similar driven by those 2 markets.

Thierry ChereI

Very clear. Thank you. I really appreciated the privatization program, but as you mentioned, it takes time. Do you have a larger disposal program, I mean, publicly released?

Christian Fladeland

We will also be open for doing larger disposals. Don't get us wrong at that at all. There are 2 aspects to that. We only want to do it if we believe we get decently paid compared to what we believe that the fundamental value is of these residential assets, which are becoming more and more expensive to replicate with the increasing cost of inflation. They're coming in increasingly demand, given the supply-demand imbalance is separating as construction activity has fallen significantly. So it's not because we are against selling larger portfolios in order to improve our credit metrics, but we want to do it on a basis where we get decent pricing. And right now, we still feel that there is a significant bid-ask spread, given the uncertainty about where we will see a rate stabilization and how the inflation will bed over to NOI growth for residential real estate. So to the extent that we can make a larger disposal that can support our credit metrics at price point that we believe is fundamentally fair, then we are very open to that.

If we are in a position where we are not able to get liquidity, we see the banking market is closed. They don't like our asset base, which we haven't seen at all until now. Then of course, it might be that we would have to take more drastic measures. But given that we have such strong headroom within all our financial covenants, we have such a good liquidity position, there is limitations to how we would do fire sales, not to go to a BBB minus rating, for example.

Thierry ChereI

Okay. Thank you. You are not really mentioning revolutionary potential, if I'm correct. Do you have a figure to make it clear, even if it's a bracket across countries?

Christian Fladeland

It would be a bit too high level for me to go through each market, but we can definitely revert on that on a separate request.

But one thing that is very clear is that if you go through our... each of our markets and you look, for example, at a valuation yield of 2.7% in Germany, it's not because that there is anybody who has a stabilized yield requirement of 2.7%, but it reflects that we have very low rents per square meter in very central Berlin and Hamburg locations. So there we would have a stabilized yield of around 3.75%, reflecting that we essentially have a rent diversion of probably 7% to 80% if you look across the portfolio. But that would of course take time to realize that and that's what is also driving our like-for-like growth in these markets. But blended as across the whole portfolio, I don't have a figure that I would be comfortable with just communicating, but we are definitely happy to revert on that on a country-by-country basis.

Thierry Cherel

Okay, perfect. I'll write you down an email. Regarding the dividend payout and the current stress on your shareholder, Heimstaden AB, do you intend to increase the payout ratio next year?

Christian Fladeland

The payout ratio from Heimstaden Bostad?

Thierry Cherel

Yes, the one off Heimstaden-Bostad. Sorry.

Christian Fladeland

So, in general, we are not going to make any dividends on Heimstaden-Bostad level when we look at the current financial metrics. We have a financial policy that we are committed to support, so there will not be any dividends on the common shares and the B shares in such an instance, unless we are well within those metrics and then we have made profit. And even though I'm optimistic about Q4, I don't think that we will recover fully for Q1 to Q3 results.

Thierry Cherel

Okay. Sorry, I missed it. I think it's a very good decision on the Bostad point of view. Do you have any discussion with new shareholders? Maybe I've missed a question or my English is not as good as the one of my other colleagues. So, do you have discussions with new shareholders as you used to have in a former capital increase?

Christian Fladeland

We are continuing to meet with new potential shareholders and also target to increase our shareholder base. I think it's fair to say that the current fundraising environment for Core, Core Plus vehicles is not super easy. There has been a lot of uncertainty related to where our asset value is going, when are they going to stabilize. So, it's not been an environment that has been particularly easy to actually get in new investors on, but we continue to have good dialogue with potential investors. We continue to see residential as the absolute preferred segment within real estate. So, I definitely believe that we will continue to see new shareholders coming in, but whether it will be in the next quarter or 2 quarters from now, that's a bit difficult to predict given the current market situation.

Thierry ChereI

And if this happens, what would then be the... I would say, estimated discount on NAV?

Christian Fladeland

So, the principle is that the shareholders need to agree if they want to do an equitation below NAV, that's a key consideration of the shareholder agreement. That being said, when you have such attractive opportunities in the capital markets, also in the listed equity space, we're also realistic that if you want to attract capital, you need to have some kind of caution in that respect. And there we have made special agreements where the shareholders have jointly agreed to, allocating the discount from bond buybacks to new entering shareholders or existing shareholders participating in an equitation. And I could foresee that that would also be offered again for new shareholders or existing shareholders.

Thierry ChereI

Very clear. Regarding your hedging policy... I mean, interest hedging policy, I didn't find anything. Could you just give me more color on that?

Christian Fladeland

Yes. So, our hedging policy is formally related to that more than 75% of our interest rate should be hedged. That in itself doesn't say an awful lot, given that even a 12-month fixing is included there. So, what we are targeting is to have a blended interest rate fixing period of 3 to 4 years, which would be rolling over, let's say, a typically 7 or 8 year period in order to safeguard a situation where increased inflation is driving up increased interest rates, which we can then pass on to our NOI. And we feel that that has been a prudent policy to navigate.

Of course, considering the very steep increase that we have seen in inflation over the last 6 quarters, we should, of course, have taken much more duration on that hedging portfolio in Q4 2021. There's probably many who would say that. But we believe that looking at the long-term resilience of our NOI and the linkage to inflation and the positive correlation between inflation and interest rates, we believe a 3 to 4 year interest rate fixing is a prudent long-term target.

Thierry ChereI

Okay. That's very clear. Thank you. My last question is on the downgrade threshold from S&P. It has been moved to 60% debt-to-debtless equity and 1.8 times ICR. I would like to know if you think it could be even more comfortable if you downgraded to minus... BBB minus.

Christian Fladeland

Well, it could be what, sorry?

Thierry ChereI

If these thresholds would be more comfortable, if you would be downgrade on just one notch staying (unintelligible)?

Christian Fladeland

I would definitely anticipate that if we were downgraded to BBB minus, that there would be a lower threshold for going to BB plus. So, if that was the question, then I don't know what the threshold will be if such downgrade happens, but we definitely believe that there would be additional caution there.

Thierry ChereI

Okay. Thank you very much.

Operator

The next question is from Sehur Noor with Morgan Stanley. Please go ahead.

Sehur Noor

Hi. Good morning, Christian. Thanks for the call. Just 2 very quick questions from my side. On the privatization side, you were saying it's dependent on tenant share on. So, I want to ask, like, then how are you guys, like, very sure about targeting 6K units by 2025? That would be the first one.

And then on the capital injection, are the quality we're talking about, like, a potential use on the capital injection by Q4, now it seems to be slipping into next year. Has there been a delay, or is there, like, some friction that's causing this delay? Just, like, some more color around that. That's it. Thank you.

Christian Fladeland

Yes. So, if we look at our historical churn rates or tenant churn rates, even though they might vary by year-over-year, when you have 26,000 units, they're actually surprisingly stable. So, the uncertainty of actually realizing the churn necessary to carry out these sales, we feel that as being very moderate. But, of course, it's not exact science. Those 6,000 units might very well become 5,700 units, and then you will still hear me say that I feel that that's within the uncertainty. Or it could be 6,300 units. So, that is something that we have shown is quite stable.

In relation to the shareholder dialogue, it's something that we have, of course, tried to keep very good momentum on, but we also have seen quite new phases coming in around our largest shareholders. So, we, of course, need to also initiate the dialogue and onboard them both in our vision and strategy, how we see the company going forward. And they need to get comfortable around that and understand it. So, I think that the timing is a natural consequence of the fact that there has come new phases among the key decision-makers among our shareholders.

Sehur Noor

Okay. Understood. Thank you, Christian.

Operator

The next question is from Leka Megi with PGIM. Please, go ahead.

Leka Megi

Hi. Thank you for taking my questions. My first one was around the equity raise. So, if you were to receive an equity injection, could you talk about the priorities of the use of proceeds? Would these be to redeem unsecured bonds, free up secured capacity, or to redeem and call hybrid bonds?

And then my second one was more on Elekta and there have been more headlines around the FSA investigating Elekta's Investment. Is there any update on... if equity injection is subject to the investigation concluding?

And then the final one is the dividend. To what level do the metrics have to recover before you reinstate the dividends on the B shares and common shares? Thank you.

Christian Fladeland

Thank you very much. If you take the first part, it's fair to say that equity coming in would likely be prioritized in order to make sure that we support the ICR. So, we would want to make sure that we take out the most expensive debt first. So, that would be upcoming maturities that was intended funded with the new asset-backed funding. So, in order to support the ICR, the key priority would definitely be to allocate that to the most expensive debt.

On the FSA and Elekta side, I don't have any... that's a question you need to address to Elekta. But we have not had any indications that it's causing any issues to have the dialogue that we're having in relation to potential acquisitions. But it's up to Elekta to comment on that.

And then you had a third question, which I already forgot.

Leka Megi

Just on the dividends, at what point do you think about reinstating dividends? Thank you.

Christian Fladeland

So, the dividends would be subject to at least recovering within the... or stabilizing within the threshold of the financial policy as a minimum. And also that we have recovered our losses. So, to the extent that we are to reinstate dividends, unless new agreements are made among the shareholders, we should be well within our metrics of the financial policy. So, that should be the 1.8 S&P ICR, the 60% net debt to cap. And we should also have recovered the losses from Q1 to Q3 this year, before we could reinstate dividends on... cash dividends on B-shares and common shares.

Leka Megi

Great. Thanks very much.

Operator

The next question is from Qian Yi with Atlanticomnium. Please go ahead.

Qian Yi

Hi. Thank you for the presentation and thank you for taking my questions. So, I have several. Maybe I'll start one-by-one. The first one is regarding the ICR disposal. Are you going to have... what's the process of disposal? I just want to understand a bit more. Are you going to identify the properties first and wait for the trend? Or you were just like a first trend, first sell?

Christian Fladeland

Did you refer to the Icelandic portfolio or did you refer to privatizations in general?

Qian Yi

Sorry, privatization in general.

Christian Fladeland

Okay. All good. So, we have done a bottom-up analysis on asset-by-asset basis and evaluated what we believe is the realistic selling price based on ownership housing market data for the given micro-location and type of assets. We have compared it to how we look at the forward-looking return prospects of a given asset. And on that basis, we have concluded this 26,000 unit portfolio that we deemed highly attractive to privatize. So, this is very much done on an asset-by-asset basis, this evaluation.

Qian Yi

Okay. In that case, because my next question is in terms of the pace of the disposal, it could be lengthier than we thought. And while you're commenting like we might have more clarity in terms of equity injection subject to the disposal to some extent. So, I'm just a bit lost here because I don't really think that the disposal will materialize a lot in Q4. So, what would be the consideration to really think about the equity injection here? I mean, just to understand a bit more.

Christian Fladeland

So, if you compare it to what we stated on our Q2 earnings call, we said that we were to evaluate the balance between a potential divestment plan and potential equity injection. Now, we have concluded and decided that we want to carry out the divestment plan comprising 80 billion SEK of assets, which will take a number of years to materialize, given that we're carrying it through this privatization, which we believe will give the best outcome for the company. That still doesn't rule out that there is relevance to discuss equity injections. If you want to defend this, we will be flat rating with great comfort.

So, the short answer would be that now it's concluded that we want to carry out this extensive privatization, no matter what happens on the equity side, which was previously a combined consideration. But there is still a need to discuss and conclude on this equity consideration, given that the pace that these divestments can kick in is not necessarily enough to make sure that we can maintain the BBB flat rating, which is our ambition. So, that's our decision and discussion for the shareholders to conclude on, how much they want to support in order to address a potential downgrade risk.

Qian Yi

Okay. Out of curiosity, when a property becomes vacant, how long does it take usually for you to sell the units to a private individual, based on your previous experience?

Christian Fladeland

It varies across markets, but in general, we are having around 60 days from that day has been sold until there's a handover. It's a bit different across markets. And the selling period can be anywhere from 10 to 20 days, and where it's the quickest, up to 50 days. And of course, with 50 days, normally, there will also be a handover period afterwards. But blended, it would be around 60 days.

Qian Yi

Okay, cool. And finally, on The Netherland portfolio, because you're going to sell, like you identified 20% of the portfolio to disposal, but given the necessity of scale impact for the platform, do you plan to buy new properties in the coming years, or it's not really in the plan for the moment?

Christian Fladeland

So, we really like the fundamentals of the Dutch residential markets. We see that it's highly accretive for us to prioritize the portfolio today, where we are getting premiums of around almost 40% to our book value, and thereby selling at very moderate implied yields going forward. So, what we intend to do, and which we also have an incentive to, is to reinvest part of the proceeds in newly built, in order to also address the tax credits that you will get from that. So there is a potential to eliminate the capital gains tax, which of course becomes quite significant for this portfolio by reinvesting that into newly builds. So we definitely don't anticipate to exit The Netherlands, we anticipate to rebuild probably mainly towards newly builds. And that would be not by leveraging up but by using the tax credits that we can get from the capital gains tax that becomes payable.

Qian Yi

So just to clarify here, so do you have a target splitter for the proceeds to use for reinvestment and deleveraging or is subject to the tax benefits?

Christian Fladeland

That's only the tax benefits that is target for this, our key priority is deleveraging. So the only reinvestment consideration here is related to the fact that we can neutralize the capital gains tax which we would anyhow not be able to use for deleveraging and that's would also be able to, to maintain our property and scale organization in The Netherlands.

Qian Yi

Okay, cool. Thank you very much.

Operator

We have a follow-up question from Neeraj Kumar with Barclays. Please go ahead.

Neeraj Kumar

Yes, just a quick follow-up on the stabilization of the asset values. I mean we have heard it from other residential landlords that they see valuations sort of stabilizing and yet the transaction market is completely or more or less shut. What is the confidence that there is like the valuations are stabilizing or let me put it other way, if you were to sell like a 1 billion portfolio, can it... can you sell it at less than 10% discounted book value currently? I mean just trying to understand what gives you the confidence that the values are stabilizing?

Christian Fladeland

So, if we take across the majority of our portfolio which have ownership housing and they have privatization potential. So, even though it's only 80 billion SEK only, it's 80 billion SEK we allotted for it. We have a much larger potential. So, as long as we see that those markets not set to decrease significantly, we now see that there is such a big spread between investment currency values and the privatization values that we believe that that is providing significant caution in our currency value based on those markets. The markets where we don't see that being as much of a protection is in particular the Germany and Sweden.

And I am quite certain that if you were to go out with a 1 billion Euro portfolio, even the current bid aspect in the investment property market where I haven't tried to do it, to be honest, I don't know whether that's realizable at a 10% discount or it can be done at book value but what I can say is that we are getting our portfolio value on a quarterly basis by external valuers on an asset-by-asset.

Of course, people can say that yes, but if there is only a moderate number of transactions then that... not exact signs either and that's also correct, but on the other hand you can compare us to a lot of others and you will definitely see that we have been quite dynamic in adapting to the decreasing market values.

Neeraj Kumar

Yes, that's helpful. Yes, I mean I am just trying to understand because I mean what keeps the transaction market so short if the valuations in principle should be stabilizing after having taken like 10% to 15% valuation decline from the peak. So, I mean what brings the buyers in the market to sort of make it functioning with the stabilizing value is what I was trying to understand.

Christian Fladeland

Yes, if that was a question, I can repeat my answer again, but...

Neeraj Kumar

Yes, okay. No, that's fine thank you.

Christian Fladeland

Good.

Operator

The next question is from Oscar Engellau with Bolite. Please go ahead.

Oscar Engellau

Thank you. My question is if you intend to repay i.e. call the hybrid bonds with first call date in late 2024, and also a follow-up question about its repayment with hybrid bonds, are included when you say that you have secured funding to refinance all debt until Q2, 2025?

Christian Fladeland

We don't have any comments on what we are going to do with the hybrids one year in advance. We will look at that when we get at that point in time, but we don't consider hybrid as a part of our maturity schedule and refinancing with ordinary debt, I would assume that that would from a rating perspective ruin potentially the whole hybrid cash back not only the one that is coming by the end of 2024. So, that is not considered as part of our maturity sources and uses and the liquidity reference to...that I'll get to. And yes, that's the comment we have on the hybrids for now.

Oscar Engellau

Right. And the follow-up question to that is, do you have a view on how not calling the hybrids would have an effect on your credit rating?

Christian Fladeland

It would have a direct effect of course from the fact that we would lose equity consent on that hybrid which would impact the S&P, LTV and it would also impact our ICR given that we would have a 100% interest expense. So, that's... so, that would depend on how the metrics would look at that point in time and what caution that would be.

Oscar Engellau

Right. And one last question. Do you consider the hybrid debt, expensive debt?

Christian Fladeland

Yes, I consider it expensive debt compared to what we have in the asset-backed funding market but compared to the screen prices that we see on our bonds, it's quite evident that the coupons on the spreads on the hybrid is lower than the screen prices on unsecured debt.

Oscar Engellau

Yes, but you mentioned that you were focusing on repaying expensive debt. So, this is considered expensive debt from a company perspective. Well, that's okay. Thank you.

Christian Fladeland

Thank you.

Company Representative

You're welcome.

Operator

The next question is from Raymond Tam with Algebris Investments. Please go ahead.

Raymond Tam

Hi, good morning. Thank you for taking my questions. I just want to confirm, you have enough liquidity you said to Q2 2025. Am I... did I hear that right?

Christian Fladeland

That's correct. Our committed liquidity, yes.

Raymond Tam

Really. And I guess now the focus is on 25-26 and onwards with regards to raising secured and speaking to your counterparties?

Christian Fladeland

That is correct. And then of course to the extent that we can free up capital via the privatizations or if there are common equity injection, then we would not call on all the facilities that we have in place because they are... they are... ICR accretive. So, yes, we are focusing on de-risking from Q3, 2025 and onwards but the main plan is that we will be able to address that through the privatization plan and thereby support of deleveraging.

Raymond Tam

Thank you.

Christian Fladeland

You're welcome.

Operator

The next question is from Anne Caris with Pictet. Please go ahead.

Anne Caris

Thank you very much for your call. A quick question. As you sell all privatized assets, will there be enough amount so that you could be communicating in between quarter, for example saying that you managed to send X billion and that to improve your cash or is that going to be a quarterly update only? Thank you because you are doing it with debt financing.

Christian Fladeland

So, for now we would assume that to be only our quarterly update on that, given that we are in a ramp-up year and it's going quite quickly. I will not rule out that when we get to 2025 or late 2024, that it could make sense to provide more updates on this if we find it necessary, but for now I would assume that quarterly update is fine in this respect.

Anne Caris

Okay, thank you.

Operator

The next question is from Clark McPherson with Clearance Capital. Please go ahead.

Clark McPherson

Yes, good morning. Thank you very much for hosting the call. I have three questions. First of all, on CAPEX, can I confirm that for the CAPEX part and the targets, year-end was still 4.50 billion. So based on what I see this morning there is about a 1 billion to 2 billion there, plus 1.2 billion on the signed acquisitions. Are those numbers correct?

Christian Fladeland

They sound directionally correct to me. I don't have them in front of me, but you said 4.5 on the wider CAPEX including the development for months and then you had 1.2 billion more.

Clark McPherson

Yes, so I think what I... when I last met with you guys, I think the number was confirmed again at 4.5 and it looks like you have done 3.5 year to date. So, I am presuming there is another billion to do on the CAPEX, plus the 1.2 on the signed acquisitions which is what you disclosed as the remaining commitments in the report.

Christian Fladeland

We assume that we will be able to outperform slightly on the 4.5 that I had communicated earlier, given that we have increased the threshold from some of the more value-added discretionary CAPEX. Whether I would end at 4.1 or 4.2, we would have to see by year-end, but going into 2024, you should anticipate that to decrease even further.

Clark McPherson

Okay, that's clear. Thank you. Just back on the (unintelligible) I see that you are still maintaining the valuation at around 9 billion that you have done a fair value assessment. You don't see a requirement to adjust that. If I am correct, the market value now is around 4.4 billion on that stake. At what point, do you think you people set out to actually revalue that?

Christian Fladeland

That would be... we are doing impairment testing on that based on how we see the underlying asset value. And then we apply the equity method per IFRS. So, to the extent that we completely disagree with the underlying property values, then that would also entail a impairment of that stake.

Clark McPherson

Okay. And you said it's strategic. I mean would that change if there was a significant revaluation in the market and would... could it be then more attractive for you to dispose of that asset or it's kind of... the... your strategic view on that is regardless of the price.

Christian Fladeland

No, I would say that if we felt that there was a good price to be paid for that stake, I would say that that could definitely something that would be relevant to look into, given that we don't rule out anything for supporting our credit metrics and deleveraging effort, but it's probably one of the least likely assets based on how we see the at least screen prices on the (unintelligible) trading. We feel that there is a lot of intrinsic value in (unintelligible) and then thereby stepping out of prioritized source of deleveraging.

Clark McPherson

Okay. That's very clear. And then the last question is just on the dividend. It's a bit hard to get alone, know that it's if you were to be... to set the downgrade to low triple B presumably then you would have increased flexibility within the credit metrics for that rating. Could that then give you the flexibility to reconsider or revisit the dividend payments?

Christian Fladeland

That would be subject to the Board deciding on amending the financial policy, even in case that we do a downgrade and we would get below our current financial policy ICR and be allowed to do that per... as we would be minus rated. Then it would be subject to the Board actually making more lenient financial policy, which I would not anticipate to be the case to be honest. I think that even a downgrade would still be associated with an ambition to refer to a BBB flat and not provide more lenient headroom on the financial policy and also allow for dividends. So, that should not be issued.

Clark McPherson

Okay, great. Thank you very much.

Operator

There are no more questions at this time.

Malin Lethenström

Thank you, operator. We will then... with that, we will then complete today's call. If you have further questions, please don't hesitate to reach out to the IR team. Thank you again for joining us and have a good rest of the day.

Operator

Ladies and Gentlemen, the Conference is now over. You may now disconnect your lines. Goodbye.

- END -