

## Full Regular Transcription

# Heimstaden Bostad

## Heimstaden Bostad presentation Q4 2024 results

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### COMPANY REPRESENTATIVES

Helge Krogsbøl, co-Chief Executive Officer

Thomas Alexander Hansen, Chief Financial Officer

Paul Spina, Chief Management and Sustainability Officer

Christian Fladeland, Co-Chief Executive Officer

## PRESENTATION

### **Helge Krogsbøl**

Welcome everyone and thank you for joining us for the presentation of Heimstaden Bostad's 2024 annual governance and sustainability report. I'm Helge Krogsbøl, co-CEO of Heimstaden. I would like to inform all participants that this presentation is intended only for investors and other financial stakeholders. Today's speakers will go through a slightly longer presentation before we open to questions. Today's report is a combination of our annual report and quarterly Q4. It is our intention to provide comprehensive reporting to the market early in the calendar that provides both quarterly and yearly updates in an easy to digest manner.

Questions can be asked on the phone or in writing, via the webcast. We will only address questions on Heimstaden Bostad. If you have additional questions after the call, especially if your enquiry is modelling-related, please reach out to our investor relations team after the call.

In 2024, Heimstaden Bostad's portfolio achieved impressive operational results, with rental income growth maintaining strong momentum despite reduced CPI rates, highlighting the indexation in rents and significant tenant improvement investments. Near-full occupancies supported this performance, with like-for-like rental income growth exceeding 5% for the entire year. We closed the year with a Q4 like-for-like rental income growth of 5.3%, which is well above the blended KPI of 2.2% for the group portfolio.

On the cost side, property expenses decreased by 3.5% on a full year basis. To me, this was an area of focus, and I'm pleased to see that we outperformed our internal benchmark. The net result is continued anyway margin development as we improved to 70.4% from 69.3% in Q3 on our last 12 months basis. Property values on a peer value basis continue to grow organically, with a productive quarter over quarter growth of 0.7% as compared to 0.8% last quarter. Christian will further comment on valuations and expectations later in the presentation.

Finally, the privatisation plan is tracking slightly ahead of schedule. As Paul will discuss later, we saw cumulative growth, sales increase to SEK 8.8 billion and equalling to a 26.8% premium to book value. The result shows that we are SEK 200 million above our running year end target of SEK 8.4 billion. For those following on a quarterly level, this entails 530 sold units, at a total sales value of SEK 2.4 billion. Premium to book were 24.1% for Q4 standalone, and SEK 1.5 billion of net proceeds was released for liability management.

In addition to privatisation, we supplemented the disposals with SEK 2.3 billion of the portfolio sales across four countries in the quarter. As you can see in page 19 of the annual report, our portfolios released SEK 1.7 billion of net proceeds for additional deleveraging and management. The combination of both the privatisation and portfolio sales paid down SEK 1.2 billion of secured debts.

As we close the year I would like to take a step back and acknowledge our team. I am deeply impressed by our colleagues' dedication and hard work, which has been instrumental in achieving these robust operational results. Our mission to deliver friendly homes to our tenants and our team work tirelessly to meet that mission every day by nurturing lasting relationships with our tenants, listening to our stakeholders and creating long-term value. With that, I now hand it over to Thomas, who will give a deeper update on the figures.

### **Thomas Alexander Hansen**

In line with our expectations we continue to see historical highs in our occupancy figures. From a full year comparison, real economic occupancy improved to 98.5% from 98.2% in 2023. A positive development for the year is due to low-cost strategic initiatives coupled with favourable macro trends, that includes the supply demand imbalances that we see across our markets. Excluding deliveries late in the year, real economic occupancy will have risen to 98.9% in Q4. Per our updated publication in the annual report, we expect occupancy to remain above 98%.

During the year we saw new deliveries of 3,236 units across seven markets. Most notably, 1,460 units in Poland, 800 in Sweden, 464 in the United Kingdom and 320 in Denmark. While these deliveries negatively impacted real economic occupancy during the respective delivery periods the impact was temporary across the year.

For Q4, we saw real economic occupancy maintained at a stable level compared to 98.7% in Q3. As seen in previous quarters, the strong real economic occupancy trend in our regulated market is sustained. Especially in Germany and Sweden as both improved or maintained at 98.5% and 99.7% respectively. Denmark is now seeing its seventh consecutive quarter of occupancy improvements, from 96.6% in Q1/23 to 98.9% in Q4/24. Occupancy is supported by our focus on regions experiencing household growth and housing shortages, which is set to intensify further due to the limited new supply pipeline.

For the UK, real economic occupancy decreased to 78.1% from 96.8% on a quarterly basis. The decline is directly attributable to the delivery and onboarding of 464 new units in Q4.

This stabilised portfolio in the UK is operating inline with our occupancy expectation of 98%. Like-for-like rental income growth was a net 5.3% increase over our comparable portfolio from a year ago. The comparable portfolio now represents 94.8% of total rental income. Key drivers for the year include indexation effects, occupancy development, capex rated tenant improvements and rent reversion. Our blended core CPI benchmark continues to decline to 2.2% from 3.6% a year ago. This then marks the fifth quarter of like-for-like growth surpassing passing inflation, showcasing the possibility for rents to outperform CPI over time.

Over quarter, about 2.9% of the 5.3% quarterly development stems from indexations with the remainder being occupancy of 1%, tenant improvements of 0.7% and the rent reversion covering the residual.

For Sweden, we have served another strong level of 5.3%, which is well above the local CPI of 1.6%. Rental growth is driven by annual negotiations with local tenant associations and business plan execution, including value-add capex such as apartment upgrades. Looking ahead, we expect continued strong momentum in rental growth, which is set to surpass expected inflation.

Germany posted a strong result with a quarterly figure of 4.7%. Rental growth continues to be driven by rent reversion upon tenant turnover, significant tenant improvement investment and a combination of contractual indexations tied to the CPI. Alongside unique specific increases based on public rental tables for existing leases.

Our NOI margin end of the year at a record 70.4% on a LTM basis and equally at 70.4% on a quarterly basis. This achievement underscores our ability to deliver sustained income growth while maintaining cost control. In addition to the previously mentioned rental income growth we also saw improvements on the cost side. On a full year basis, property expenses net of service income decreased by 3.5% to 4.7 billion from 4.9 billion. On a quarterly basis, total property expenses net of service income decreased to 1.2 billion from 1.3 billion, driven by cost control measures.

Finally, as we look ahead, we expect the full year margin for 2025 to fall within the range of 70% to 71%. I now hand it over to Paul.

### **Paul Spina**

Thank you. 2024 came to a close with another strong quarter in the privatisation portfolio, despite some seasonality headwinds around the holiday period we achieved sales values of SEK 2.4 billion, selling 530 units at above a 24% premium to book value.

When combining secured debt repayments and net proceeds for corporate use, this equates to 111% monetisation ratio of our privatisation assets, reinforcing the strength of our asset base and our valuations.

Total sales since inception have now surpassed SEK 8.7 billion at premiums close to 27%. While long-term forecasting is of course not an exact science, we continue to deliver in line with our ramp up plan, 4% ahead of the case first published just over a year ago. Looking forward, taking our Q4 run rate and adding in the additional assets and ramp up in Norway, we continue to see the potential to build towards 10% to 15% upside in quarterly sales values over the course of the year, while continuing to guide towards a 20% premium to book.

Looking towards our total capex investments we continue to see a steady decline throughout 2024, driven by our agile capital allocation strategy, investing a total of SEK 6.5 billion split evenly between the new production portfolio and capex on standing assets. Our forecast for '25 continues to trend from the previous three years, reducing again by 25% year over year, while utilising the optionality of our standing asset investments and increasing slightly there as we see ICR-accretive opportunities at above-market yields.

Focussing on the investments in our standing portfolio, year over year capex was down by roughly one-third versus 2023, spread across each of the four pillars with the largest reduction coming from the value-add area, where we continue to hold the optionality to again start those investments at our discretion. The exception to the annual reduction is in the sustainability capex area where we increased year over year, given both the impact and value accretive opportunities above 10% unlevered IRRs. The result of those investments continue to pay off towards our climate roadmap where we see a reduction of CO2 of 15.5% versus our baseline year of 2020. Energy security remains a focus across the globe with constrained supply and increased demand, and we continue to harvest strong results in this area with weather-corrected energy intensity down 13%.

Tenant improvements remain a key income in value driver for our business and despite the increased hurdle rate to 10% we completed over 4,000 unit refurbishments in 2024. A reduction of 43% in spend while increasing our yield on investment by over 38%. 2024 also saw the completion of 3,200 new production units, leaving only 1,145 units left to be delivered in the next two years in Sweden, Germany and Czechia. A 75% reduction in commitments with only SEK 830 million left to be invested in 2025 and a small tail of SEK 100 million in 2026.

Wrapping up with a few words on our 2025 capex strategy. Our total capex investments are forecast to decrease again by 25% from 2024 to 2025, allowing for a modest increase in opportunistic ICR-accretive investments into our standing assets at above market yields. Maintenance will increase moderately, primarily reflecting cost inflation. Sustainability will continue to increase in line with our climate roadmap, giving strong returns and impact. Tenants improvements driving rental growth will also increase modestly based on increased volume of units across most markets. And there will be an increased focus on value-add opportunities delivering projects with projected NOI yields far above stabilised yield requirements in the respective markets. With that I can hand it to Christian.

### **Christian Fladeland**

Thank you, Paul. Our fair value increased by SEK 3.3 billion over the quarter, it was driven by a SEK 2.3 billion value increase, SEK 1.4 billion in capex spend and taking delivery of SEK 300 million of new builds. Divestments amounted to SEK 2.9 billion as well as SEK 875 million which was transferred to assets held for sale. The assets held for sale is the transactions that we have signed and where there is no conditions outstanding but we are transfer still awaiting.

As the SEK ended the quarter on a weaker note against our main foreign currency holdings we have a positive FX effect of around SEK 3 billion. Zooming in on the key markets where there has been a particular development, if we look at Norway we saw a negative value growth of 18.1%, this was not driven by market trends but the fact that some one-off stamp duty payments that is capitalised in order to scale and ramp up our privatisation programme. So adjusting for that it would essentially have been a flat quarter over quarter value development.

The same one-off adjustment goes for the UK, where we had Bonnington Road, our Edinburgh project, where we had a capex that was only invoiced in Q4 that we had already accounted for in Q3. So if we had adjusted for that effect we would essentially have seen a slight moderate increase in the UK as well for the quarter. For the remainder of the markets we generally saw strong value development or stabilisation. Markets still standing out positively is the Netherlands where the owner occupier markets continued to improve and drive value growth. In Poland we continued the ramp up of our portfolio as you can see from the NOI yield increasing by about 100 basis points. That is not a stabilised yield increase of 100 basis points but just a reflection that we took a lot of deliveries in Q3 that has now been successfully stabilised in Q4 as you also saw from the occupancy slide earlier on.

In the UK on the other hand we have the same impact of taking on a new delivery in Q4, just with the opposite sign.

We have seen the NOI yield compressed from 4.7% to 3.4% due to the fact that we are ramping up our Edinburgh project. But when we get into Q1 and Q2 this year we expect that to be fully stabilised as well. On a positive note, we have seen that the Swedish market has continued to recover. We announced a transaction in December of SEK 1.16 billion, which was also well above book value. In general we see that there are more and more transaction comps supporting positive value growth momentum. It is both driven by increased rental growth prospects from the annual negotiations but also the fact that yields requirements have started to slowly compress in the Swedish market as well.

When we look into 2025 I need to sum up what has happened most recently in 2024, we have still seen that the opening of the capital markets has really had a positive impact on Heimstaden Bostad. We entered the euro bond market in October with the successful placement of the €500 million bond at 175 base points left, meaning that it is competitive on the most expensive marginal bank funding that we have. We will continue to evaluate how to use the capital markets as support for both diversifying our funding between the asset-backed funding market and the capital markets in order to continue the support of the ICR.

We also have seen a stabilisation of our ratings, which reverted from the negative outlook on our -BBB rating to stable. We still have the negative outlook on the S&P rating, which we continue to resolve and we have very positive view that that should be possible over the course of the year. Based on the plan that are currently executing we see that the ICR has definitely bottomed out and that we also see a slow recovery. However, we do emphasise that the 92% hedge ratio that we have that is taking away the downside on the ICR also means that we are a bit more locked in in order to see the recovery. So we are only expecting to see a real recovery towards 1.7 and 1.8 when we head into 2026.

The transaction markets have continued to reopen a bit for more core residential investments, during Q4 we had disposals of around SEK 2.3 billion of block sales in addition to the privatisation programme. This is something that we have been flagging on the most recent earning call that we would continue to evaluate how we could add additional disposals on top of the privatisation programme on an opportunistic basis. We do see that that kind of transaction market at best kind of transaction will also be something we will pursue going into 2025 but we don't want to guide on any volumes but continue to say that we will do it on an opportunistic basis as we feel good trades can be made.

The operating fundamentals are really back in focus.

The lack of initiation of new construction, the supply demand balance being exaggerated, which we already benefit a lot from in the privatisation programme. We believe that that will also be the key theme going into 2025. Looking at how much construction costs have come up in recent years, looking at the yield increase, we really need to see a reset in the market rents before it's viable to make new construction. And while new construction is not viable we believe we will continue to drive rental growth that is well above inflation, and with a yield environment that we consider to be stabilising we believe that that should add directly into value growth.

And then it is important to acknowledge that yields are also set based on expectations for the future. So I would definitely not rule out that we could also see some yield compression due to the fact that we expect increased rental growth going forward, whereby stabilised yields remain the same but the valuation yields will come down in order to reflect the expectation of a continued strong operating environment. With that as the backdrop I think we should open up for Q&A.

## QUESTION & ANSWER

### **Operator**

We will now begin the question and answer session. Anyone who wishes to ask a question or make a comment may press star and one on their touch tone 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 when asking a question. Anyone who has a question or a comment may press star and one at this time. The first question comes from Neeraj Kumar from Barclays, please go ahead.

### **Neeraj Kumar**

Good morning everyone and congratulations on the results. So my first question is available finance at high rate and high base level and then secure that high starting level what are the budgets for the year ahead? Should we be expecting any positive developments in terms of relationships with Alecta this year?

### **Christian Fladeland**

So we will continue to execute on our plan for supporting the credit metrics, continue to do whatever measures that can support the ICR. In terms of Alecta we don't have any update on any of the shareholder matters.

**Neeraj Kumar**

In terms of financing, Fitch mentioned that your unencumbered asset ratio is below 1X and they would like to see it go 1.5X before the end of this year, does that mean we can see a lot of fund consolidation this year?

**Christian Fladeland**

There is no doubt that we are continuing to monitor the capital markets in order to see how we can use that in an ICR-accretive manner. If we can also use that to support the unencumbered ratio of course that's another positive aspect of it. But our key focus is to continue the deleveraging and if you look at our maturity profile we only have one large maturity this year in July. And we have a lot of sales receipts coming in from the privatisation programme. So you should definitely expect us to continue to monitor the options but doing anything in the capital markets that are ICR-accretive but we will not communicate anything further on that respect.

**Neeraj Kumar**

Got it. Also, coming to your JVs what's the maturity on this intercompany loan to the subsidiary with Allianz, I see it is 5.3 billion or so and how do you plan to refinance that debt?

**Christian Fladeland**

So the JV, you're completely right, we have these intercompany loans. The base case is that we will refinance that debt as it matures in the asset backed funding market.

**Neeraj Kumar**

And but that would decrease the unencumbered asset ratio even further, right?

**Christian Fladeland**

That is correct but we are only looking into maturities in 2026 and onwards so it will of course blend together. And we'll of course to monitor the unencumbered ratio.

**Neeraj Kumar**

Got it. And lastly, I hear you're not looking to provide any guidance in terms of portfolio disposals this year but do you have any guidance on how the privatisation programme would look like after 2025? I mean have 20 billion target until 2025 but how about 2026 and 2027?

**Paul Spina**

Yes, I'll take that one.

After '25 we expect volumes to be roughly the same, of course the more that you sell the smaller the portfolio gets. We have a somewhat limited portfolio in Germany, so that will not be a part of the plan and size going forward but you should expect volumes similar to '25 in '26 as of today.

**Neeraj Kumar**

Thank you very much, that's all from my side.

**Christian Fladeland**

We got a question on the chat in relation to funding plans for 2025 and how are going to address upcoming hybrids. We don't have any hybrids coming in 2025 after we address the one here in December 2024 this February [unclear 00:24:01]. But I think you should anticipate that we will continue to monitor the market in the 2026 we definitely have ambitions to replace as we did with the first one. But all this of course remains subject to market conditions.

The funding plans for 2025 is actually quite boring, or simple, given that we have so few maturities, our ambition is to deleverage and we have such a good pace on the privatisation programme. So everything that we will do on the funding side would be on a basis of supporting the ICR and doing it on an opportunistic basis. There are no needs to funding, there are no needs for any larger refinancings, so all should be anticipated to be with a perspective to support the ICR if we are to do anything either in the asset-backed funding markets on larger scale or in the capital markets. Any more questions?

**Operator**

There are no more questions on the phone, I will now like to turn the conference back over to Christian Fladeland for any closing remarks.

**Thomas Alexander Hansen**

We have one from Mary, can you turn her on?

**Operator**

Yes, here we have a question from Mary Pollock from CreditSights, please go ahead.

**Mary Pollock**

Thank you for sneaking me in under the wire. Congrats on a good set of results.

I wondered if I could ask, you mentioned when your senior bond was competitive with the wide range for what you guys can achieve in the secured market, would you be comfortable naming a spread that is clearly accretive for your ICR? Like where you would start issuing more sizably potentially? And then I've got another one on plans for capital allocation.

**Christian Fladeland**

So if we look at the six to nine months ago I believe we guided that we would be looking at the euro bond market when were at 200 basis points or below. The 175 was definitely accretive on the most expensive marginal funding that we have in the asset-backed funding market. The asset-backed funding market has also fortunately become much more competitive, so I would say that we definitely see that that hurdle rate has come further down. Whether it is 150 basis points, 160, 170, I don't want to guide anything firm on that but you should definitely anticipate it has come down as banks are also becoming more and more competitive for retaining business.

**Mary Pollock**

That makes sense, thanks. And you hinted that you expect some stabilisation from S&P over the course of this year, if you can achieve that you can start to think about other ways to potentially deploy cash, what investment looks most attractive to you right now? Is it investment in the portfolio, is it things you're coming seeing to market that are for sale from peers and the transaction market? Or is it the dividend as priority number one?

**Christian Fladeland**

There's no doubt we believe have a lot of unlocked potential in the portfolio. So when Paul and the team is continuing to monitor what to do with investments as we reduce the hurdle rate I think its fair to say that we have a lot of unlocked potential organically that we want to prioritise as a starting point. Given the operating environment that we are experiencing we definitely feel that there is a lot of interesting investments that could be made because we believe that there is much more growth potential in the sector than is necessarily priced in. But we will definitely prioritise the highest yielding ones first and that is in our existing portfolio.

**Mary Pollock**

Thanks, and that's still the 10% yield bogey is the same?

**Christian Fladeland**

The 10% we have been very disciplined around now that the marginal funding cost has evidently gone down and is it 4% or below for us at the moment.

We are also looking at the 8% as something that we view on an opportunistic basis. And I think it is fair to assume that the 10% would be delivered over the course of the year unless something changes.

**Mary Pollock**

And any comment on the dividend looking out to 2025/26?

**Christian Fladeland**

So there is no doubt that we have an ambition of reinstating the dividend at some point, that's the whole basis of the company. However, we have also said that we are dedicated to be on the path back to this BBB flat rating. So we definitely don't see that there is any dividends upcoming on this AGM, as also proposed in the annual report. What will happen in 2026 or 2027 is a bit difficult to predict as of now, but I would definitely assume that it will take at least one or two years before that will be reinstated and we can see a clear path to get back to the BBB flat.

**Mary Pollock**

Great, thank you.

**Christian Fladeland**

That was all for today and we wish everybody a great weekend and please feel free to reach out if you have any questions after having digested the report more in detail. Thank you very much.

- END -