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Heimstaden Bostad
Q1 2025 Results

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COMPANY REPRESENTATIVES

Christian Fladeland, Co-CEO
Thomas Alexander Hansen, CFO

PRESENTATION

Fladeland Christian

Welcome, everyone, and thank you for joining us for the presentation of Heimstaden Bostad's Q1 2025 results. I am Christian Fladeland, co-CEO of Heimstaden. I would like to inform all participants that this presentation is intended only for investors and other financial stakeholders. Today, our CFO, Thomas Hansen, and I will provide a brief management presentation before we open up for questions. Questions can be asked on the phone or in writing, via the webcast. We will only address questions on Heimstaden Bostad on this call. If you have additional questions after the call, especially if your inquiry is modelling-related, please reach out to our Investor Relations team after the call.

Q1 2025 was another strong quarter. We obtained continued occupancy above 98% for the 15th consecutive quarter in a row. Even though the quarter was marked by some ramp-up vacancy, we still continued to see that the occupancy across our main markets continue to improve. Rent reversion, driven both by underlying market rent growth but also the potential that we have when we upgrade apartments, continued to prove itself. So despite the lowering inflation that we see in general, we continue to drive a like-for-like rental growth above 5%, and we do see that we'll be able to continue that in the foreseeable future.

The NOI margin hit another record high at 71% on a last-12-months basis. This is at the high end of our guidance range for the full year 2025, so we see a potential that we could potentially exceed this. However, this is still too early to conclude on, and we will update you in the coming quarters if we see a potential to outperform.

Value growth across all markets was positive, we saw 1% quarterly gains, and it was driven in particular by the strong operating performance and well-performing ownership housing markets. The strong performance in the ownership housing markets also spilled positively over on our privatisation programme. For the quarter, we recorded a record sale of 2.6 billion, reflecting a sale of 546 units, and we achieved a gross premium of almost 25%, significantly above the guidance that we provided of 20% on average when we launched the programme back in Q3 2023. Now, I'll hand over to you, Thomas, to go into the deep-dive figures.

Hansen Thomas

Thank you, Christian. Real economic occupancy remains stable versus the same level in Q1 of 2024, at 98.3%.

Notably, this is the 15th consecutive quarter with real economic occupancy above 98%. Compared to the previous quarter, real economic occupancy declined from 98.6%. However, this quarter-over-quarter development is due to a one-off stabilisation period from a new UK asset delivery of 464 units, as the UK portfolio grew by 50% in Q4 24. Outside of the one-off effects from the UK asset delivery, the portfolio outperformed historical occupancy rates, with the top four markets representing 83% of total fair value, reaching 99.5% real economic occupancy for the quarter.

Now looking to the countries, as seen in previous quarters, the strong real economic occupancy trend in our regulated markets improved slightly, and Sweden improved to 99.7% from 99.5%, due to continued impact from initiatives to address long-term vacant units across all regions. Denmark is now seeing its eighth consecutive quarter of occupancy improvement from the 96.6% in Q1 23 to 99.1% for Q1. This improvement is supported by our focus on the regions experiencing household growth and housing shortages, which are set to intensify further due to the limited new supply pipeline. Poland is seeing notable improvement to 98.5% from 96.1% last quarter, and the driver is continued stabilisation of the newly-delivered portfolio.

Like-for-like rental income growth was a net 5.4% increase over our comparable portfolio from a year ago. The comparable portfolio now represents 97.5% of total rental income. Our blended core CPI benchmark stabilised at 2.5% for the quarter, marking the sixth consecutive quarter in which like-for-like rent growth has exceeded inflation. This consistent outperformance underscores the potential for rents to deliver returns above CPI over the long term.

Key drivers for the quarter include indexation effects, occupancy development, CapEx related to tenant improvement projects, and rent reversion. About 3.2% of the 5.4% corporate development stems from indexations, with the remainder being occupancy at 1.1%, tenant improvements of 0.7%, and rent reversion covering the residual of 0.4%.

In Sweden, the rental growth remains strong at 5.4%, significantly outperforming the local CPI of 2.5%. Rents continue to be supported by annual negotiations with tenant associations, disciplined execution of our business plan, and sustained occupancy momentum. As previously communicated, this result aligns with our expectations and provides increased visibility for the remainder of the year, as uncertainties around the timing and implementation of negotiated rent increases have now been resolved.

Germany delivered another solid performance this quarter, with rental growth reaching 4.6%.

This was driven by positive rent reversion following tenant churn, ongoing investment in tenant improvements, and the combination of CPI-linked indexation and unit-specific rent adjustments based upon the public rent tables for existing leases.

Our NOI margin began 2025 at another record with our Q1 result of 71% on a last-12-month basis, and 68.9% on a quarterly basis. This achievement continues to underscore 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 1.1% to 4.66 billion, from 4.71 billion. This change continues to be driven by cost control measures and the warmer-than-average winter.

As we look ahead for 2025, we expect the margin to perform roughly in line with our guidance range, and we'll update further in Q2. Our privatisation programme continues to deliver on schedule. Since the launch of the programme, 11.4 billion in total sales value has been divested across seven countries, reflecting 2,523 residential units at the 26.4% premium-to-book value.

Net proceeds, which represents the total revenue generated from sold units after deducting transaction costs, repayment of secured asset level debt and taxes payable or deferred upon sale, is 6.5 billion since programme inception. For Q1 standalone, 546 residential units were sold across seven countries at an average premium-to-book value of 24.9%. Net proceeds for the quarter was 1.55 billion. I'll now hand it back to Christian.

Fladeland Christian
Thank you, Thomas. Looking at our fair value development across the quarter, we had a fair value change of SEK 3.1 billion. We had a CapEx spend on standing assets of SEK 670 million, and we did newbuild investments of SEK 105 million. We had privatisations divestments transferred out of the investment property pocket of almost SEK 2 billion in the quarter. We did portfolio or block sales of SEK 360 million. And finally, we had a significant FX effect of 11.9 billion, reflecting that the Swedish krona ended the quarter significantly strengthened towards our other currencies. So we ended the quarter with a fair value of SEJ 323.4 billion.

As mentioned initially, we saw improved values across all markets. Worth highlighting in particular is probably Finland, where we continue to see that supply is hitting competition in terms of occupancy, but we do also see that there are still value-accretive measures to be done there, and we continue to upgrade the performance, which has shown quite strong rental growth, leading to an increased value of that portfolio in particular.

Norway and the Netherlands is characterised by strong ownership housing market developments, feeding into property values, which is the reflection of the reduced yield requirements in the quarter. So this is not a reflection of decreasing stabilised yields, but it's a reflection of the privatisation potential that we continue to document.

Looking across the remainder of the countries, we continue to see strong rental growth and NOI development, while stabilised yields have continued to stabilise and are slowly seeing signs of compression. So compared to prior quarters, we do see that there are less and less sentiment-based valuations being made. We see an increased number of transaction comms, which is also reflected in the sales that we are conducting ourselves in addition to the privatisation programme.

So if we are to summarise, we believe that operational performance will be sustained in the quarters ahead, driven by the supply shortage that we see across our markets. We will continue to optimise our funding costs, which we have seen have peaked now. We ended the quarter with an average interest rate of 3.2%, which is stable, quarter over quarter, and we see that it's becoming more and more competitive among lenders to provide financing for residential.

As a result hereof, we also see that the ICR is set to continuously increase from here, even though it will only be at a steady pace, given that we have a very high hedge ratio in order to eliminate the downside risk on the ICR.

Residential transaction volume had started to pick up, so we do see that there is a potential to do additional block sales going forward. We announced a transaction last week after quarter-end in Denmark. We have other transactions ongoing. So even though we don't guide on this, we do see the potential to add quite some significant disposal volumes on top of the privatisation programme.

All this will, of course, continue to support our ICR recovery and thereby our path back to BBB flat rating and, first and foremost, of course getting the stable outlook back from S&P in due course. With this, I will 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 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 handsets while asking your question. Anyone who has a question may press star and one. Our first question, with no surprise, comes from Neeraj Kumar from Barclays. Please, go ahead.

Kumar Neeraj

Morning, everyone. My first question is around your Fitch rating. The question is how do you expect to bring the unencumbered properties to unsecured ratio at 1.5 times by year-end? It seems like that's a hard requirement from them.

Fladeland Christian

So there are two basic routes of that. There is, of course, doing enough capital market transaction and then repay asset-backed funding, or using more of the sales proceeds that we have at present for addressing asset-backed funding. So that is essentially part of our deleveraging route, using the proceeds as efficiently as possible, both to support the ICR but, of course, also the unencumbered ratio, and there, that's the two tools that we have.

Kumar Neeraj

Got it. And also on the same lines, the interest rate environment has been very volatile, and you have over €5 billion of debt maturing in the next two and a half years. How do you plan to navigate this environment, and what additional steps do you think you need to take to bring the S&P outlook to stable?

Fladeland Christian

We have hedged our interest rate exposure quite significantly, but we have also moderated the duration, so we also have the benefit from the short end of the curve coming down, which is still at least a bit more predictable than the longer end. So we are very comfortable that our current hedge profile will still mean that we, on average, have peaked our interest rate when we get to year end, where we forecast an average interest of around 3.3%. Combined with the overall reduction in debt quantum from the disposals and the additional headroom that we are also building by making these investment transaction sales, we are confident that we will only show an even more strong path towards the 1.8 then we had six to nine months ago.

Kumar Neeraj

Got it. Regarding these portfolio disposals, what sort of yields are you transacting at?

Fladeland Christian

It varies across markets, but in general you can say that there is still a focus among investors on having fairly high income return, meaning that it's, in general, assets that have been stabilised without a lot of rent reversion. And the typical transaction yields are at around 4%, the ones that we're doing right now.

Kumar Neeraj

Got it. And probably the last one, what's the marginal cost of financing from banks right now? And how does your overall cost of financing compare with S&P’s assumptions for this year or next year?

Fladeland Christian

Right now, we see that our marginal funding cost is around 3.5% to 3.7%, which is reflecting the base rate environment where we are at around the 2% to 2.5% across the short end of the curve to five-year. And then, we have spreads that are typically around 100 to 125 in the asset-backed funding market. So 3 to 3.7 is where we see our marginal funding cost at present.

Kumar Neeraj

Okay, thank you.

Operator

As a reminder, if you wish to register for a question, you may press star and one. Looks like we have no more questions at this time.

Fladeland Christian

If that is the case, then thank you, everybody, for listening in. Please don't hesitate to reach out to our IR function if any questions arise as you digest the report. Thank you very much, and have a great day.

- END -