Heimstaden Bostad (Q3 2026)
Earnings call transcript

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Corporate Speakers:

- Christian Fladeland; Heimstaden Bostad; Co-Chief Executive Officer
- Paul Spina; Heimstaden Bostad; Chief Operating Officer

Participants:

- Neeraj Kumar; Barclays; Analyst
- Florent Egonneau; Citi; Analyst

PRESENTATION

Christian Fladeland^ Welcome everyone, and thank you for joining us for the presentation of Heimstaden Bostad's Q3 2026 results. I'm Christian Fladeland, Co-CEO of Heimstaden, and I'm here today with Paul Spina, our COO. This presentation is intended for investors and other financial stakeholders.

Today's call will follow our usual format. We will begin with an update on the quarter and conclude the presentation with some comments on the company-specific attention we have received over the last few weeks. After the management presentation, we welcome your questions either by phone or in writing via the webcast.

The operator will provide instructions on how to submit questions over the phone. Please note that we will focus solely on questions related to Heimstaden Bostad during this call. For any follow-up inquiries, particularly those concerning financial modeling, please contact our investor relations teams who are available on Bloomberg or via email through investor@heimstaden.com.

Before I hand over to Paul, I'd like to congratulate Helge Krogsbol on his 8.5 years of service with Heimstaden. During that time, you helped us grow from a Nordic business into a pan-European property company. On behalf of our colleagues operating in nine countries, it was a privilege to have you on board. We wish you the absolute best. With that, I hand it over to you, Paul.

Paul Spina^ Thanks, Christian. In Q3, the portfolio has delivered one of its strongest quarterly occupancy improvements, with real economic occupancy increasing to 99.3% compared with 98.6% a year ago and 98.8% last quarter. The improvement is consistent and broad, with stable to positive development across all markets, reflecting strong execution against operational priorities by our local teams.

This continues to be supported by favorable market conditions, particularly the structural supply constraints across our markets. There is a one-off adjustment worth highlighting

here. Czechia delivered an occupancy improvement driven by a review of vacant units to determine their highest and best use. Units earmarked for divestment were reclassified, contributing 0.25 percentage points to the consolidated real economic occupancy.

Without this, our occupancy still remains above 99% in the quarter. At this level, the portfolio is effectively full. Looking ahead, we continue to expect occupancy to outperform our full-year guidance range of 98.5% to 99.0%, and expect to report occupancy above 99% in Q4 as well.

Turning to rental growth, like-for-like rental income increased by 4% across the comparable portfolio, which represents 99.5% of total rental income. Of that 4%, 2.8% came from contractual indexation, 0.4% from tenant improvement investments, 0.4% from improved occupancy, and 0.3% from rent reversion upon [reletting]. With weighted core inflation remaining steady at 2.1%, rental income continues to be around 200 basis points ahead of inflation.

Now looking at selected countries, performance is consistent. Sweden delivered 3.2%, Denmark 2.6%, and Czechia particularly strong at 7.1%. The UK figure reflects the stabilization of our Edinburgh asset and should be -- should not be viewed as a normalized growth rate. That asset is now full, passing the 95% threshold during the 3rd quarter.

Looking ahead, we expect to end the year in line with our full-year guidance of 4% -- 4% to 4.5%, albeit in the lower end of that range. Lower churn continues to delay growth from rent reversion and tenant improvements, but that opportunity remains embedded in the portfolio, and will be realized as units turn over. Hence, we're content with these performance figures.

That growth continues to translate into further margin development. Our rolling 12-month NOI margin reached another record high of 73.6%, supported by a strong quarterly margin of 77.2%. Specifically, rental income growth more than compensated the impact from privatization sales and property expenses were down 6.3% versus the third quarter last year.

Within that, direct property costs, which encompass costs incurred directly at the asset level, declined by 12.6%. This reflects both the reduction in direct costs from assets sold through privatizations and lower operating costs across our standing portfolio. The latter is particularly important as it reflects our continued ability to simplify and improve processes, expand the use of digital solutions, and operate the platform more efficiently.

Following the strong third quarter performance, we expect to end the year in the middle of our year-end NOI margin guidance range. Privatizations, we generated $2.1 billion of sales from 563 residential units at a gross premium of 24.3% versus book value. Volumes were lower than in the previous quarters, but pricing remained strong, particularly in the Netherlands, Poland, and Denmark.

We continue to prioritize price and value over volume and remain comfortably on track to deliver within our full-year guidance range. We remain fully committed to privatization because it delivers both attractive shareholder returns and meaningful deleveraging. But that must always be balanced with protecting shareholder value.

Poland and the Netherlands remain very strong, while Denmark and Norway have moved off peak market conditions as supply has increased and days on market have extended. Even so, pricing remains at very healthy levels. In Denmark, still more than 30% above 2024 pricing levels.

Given the size of our portfolio, we're disciplined about meeting the market rather than chasing volume. We allow the right time to achieve pricing, which means quarterly sales can fluctuate, and there may even be individual quarters closer to sec 1.5 billion. That does not change our commitment to the program.

It is also important to look at -- look through to the consolidated premiums. Premiums remain quite steady on a country-by-country basis, but the mix can move the group number materially. Denmark, where we typically achieve the highest premiums, had lower volumes over the summer, while in Poland, 91 units from the privatization portfolio were sold at book value. So the quarter-on-quarter reduction in consolidated premium is largely a mix effect rather than a broad-based deterioration in pricing.

And the underlying economics remain very attractive. Even if pricing were five to 10% below recent peaks, privatization would still offer substantially better forward-looking returns than [reletting] those assets. So we continue to sell while retaining the flexibility on timing, volume, and the right clearing price to achieve our deleveraging goals. With that, I can hand it back to Christian.

Christian Fladeland^ Thank you, Paul. Looking at the fair value development, increased interest rate volatility has been weighing on real estate investment markets, with transaction activity slowing as the gap between buyers and sellers starts to widen. This has placed upward pressure on yields, which we expect to persist into the Q4 as well.

For the quarter, the change in fair value of investment property was negative by 1.1 billion SEK, corresponding to 0.3% decline in fair value. The average valuation yield for the quarter stood at 3.82%. The main driver of the slight portfolio valuation decline stemmed from Sweden, where modest yield expansion on the back of interest rate volatility put upward pressure on return requirements.

For Germany, political uncertainty surrounding the implications of the Berlin state elections for residential landlords, together with interest rate volatility, led to upward pressure on yield requirements. Contributing positively to the value development, Denmark saw continued investment demand, which supported yield and price levels, making Denmark one of the few European investment markets that has so far remained unaffected by the recent market uncertainty.

The 4% decline in Finland reflected weaker market sentiment, but it should also be viewed in the context of a value rotation during the quarter, in line with our policy of rotating external [valuers] at least every five years. Differences in the new [valuers'] assumptions also explain how the decline in value can coincide with a lower valuation yield.

Despite the negative fair value development during the quarter, you will see that our asset value has increased by almost 4.7 billion SEK during the quarter, which is a reflection of the FX effects with the SEK weakening during Q3. When we look into Q4, we are expecting continued headwinds on the backdrop of the interest rate volatility and the potential for further yield expansion. And on that basis, we have revised our year-end S&P-defined LTV guidance to 52% to 54% range from the 50% to 52% range communicated earlier in the year.

Looking at our debt maturity schedule and the maturities for the next eight quarters. You will see that we have mainly capital markets maturities, which is per our strategy of continuing to roll bank debt in order to make sure that it doesn't impact our liquidity ratio. All bank debt that you will see maturing within the next four quarters is something that we have strategically intended to keep in place and repay upon maturity and do other refinancing, as we believe the base coupons are very attractive to key banks.

Same for the capital market instruments. The maturity in March '27 is a 1.38% coupon bond that we have fully covered by our liquidity facilities amounting to 28 billion SEK by the end of Q3 '26. So we will continue to refund our upcoming maturities, but we want to do it on a basis where we make sure that we get the full benefit of the low-coupon debt that we have in place.

The privatization efforts have in particular been supportive of this. Whereby we are using all the excess liquidity freed up from this program to repay secured RTS, and that is both de-risking our liability management but also allows us to run with a very low cash balance and thereby support our ICR rate covering.

We will conclude this management presentation with a commentary on the recent event-driven news, beginning with the Grease Street news article published by the end of September. Elektra has publicly stated that it wished to amend its existing shareholders agreement and reduce its exposure to Heimstaden Bostad based on the current terms of the agreement. In that context, it is reasonable to assume that Elektra has approached the company and the other shareholders to address their wishes.

Any future transaction would require sufficient consent from the other shareholders, with Heimstaden and Folksam holding the largest stakes. We see no rationale for the remaining shareholders to support a transaction unless it preserves or strengthens (INAUDIBLE).

Accordingly, it can also be assumed that the company would take precautionary measures to ensure that this is the case through prior confirmation from the rating agencies prior to

committing to any possible transaction of a transformative nature. However, let me emphasize that nothing is concrete or advanced in any respect to the extent described in the Green Street News article.

Further, the company is under a strict obligation to provide information to the market should any transaction become sufficiently concrete. Accordingly, the absence of public comments from the company refuting any market rumors should not be interpreted as an indication that a transaction is in fact advanced or imminent. If anything, the appropriate inference should be the opposite.

Moving on to Berlin, you may have seen that we went on the record last week with both the Financial Times and Bloomberg as we wanted to ensure that our perspective was clearly understood by our key stakeholders. Given increased speculation about the possible impact on the company.

First, some background. A prospective left-party-led coalition in the city-state of Berlin has agreed to pursue legislation that would require private landlords with more than 10,000 apartments to transfer holdings above that threshold into public ownership. Compensation is proposed to be capped at â‚¬16 billion, with legislation currently planned for 2028, and implementation the following year. Looking at our own exposure, Berlin represents approximately 15% of our total portfolio with around 20,600 units and a portfolio value of 55 billion SEK or roughly â‚¬2.5 billion.

Accordingly, based on the 10,000-unit threshold, around half of our Berlin portfolio could potentially be affected. For example, in a scenario where compensation would be measured by a 40% discount to market value, that would imply a loss of approximately $1 billion to the company. A write-down of that size is a material figure for us and would impact shareholder value.

However, even under such a scenario, we don't see our investment-grade ratings being put at any risk. Fundamentally, we are of the opinion that this policy framework has a very low likelihood of being implemented due to significant constitutional legal hurdles. For us, the key question is what this will do to Ireland as an investment market.

Irrespectively of the final outcome not being exploration at the terms scheduled by the coalition. Re-state requires significant amounts of long-term capital. If investors cannot have confidence in the fundamental protection of private property and potentially the wider German market, it inevitably becomes less relevant when that capital is to be allocated.

Under those conditions, we would certainly not prioritize new investments in the market. For Germany, I do not think this issue is limited to real estate. Any weakening of confidence in private property rights risks having broader implications for Germany's ability to attract foreign investment across sectors.

Underneath this is a more fundamental issue that needs to be addressed. Berlin faces a significant shortage of housing. Protecting existing tenants and maintaining affordability are legitimate political objectives which the current legislation addresses to an extensive extent already within Germany, having one of the most regulated residential markets in Europe.

However, ultimately legislation targeting a socially viable residential market must be combined with measures to address the crux of the problem, the need for more supply. This requires building to accommodate for increased densification and ensure proper new zoning for residential, new construction, and efficient building permit processes in combination with framework conditions that are sufficiently predictable to attract the necessary core capital to make the investments in creating new supply. If you introduce policies that fundamentally undermine confidence in property rights, attracting capital becomes extremely difficult.

The proposed policy framework creates a fundamental contradiction, wanting substantially more housing while at the same time making the city less attractive to the capital required to build it. If the objective is to combine housing affordability with sufficient housing to meet demand, increasing supply must be at the core of the solution. Finally, before rounding up and opening up for Q&A, I want to address our hybrid stack, which is also something that has been a key consideration in the market for the past couple of weeks.

Let me emphasize that our hybrid instruments are a permanent part of our capital structure, as they provide both loss absorption and funding diversity. The terms and conditions allow Heimstaden Bostad to exercise a call at any point during the applicable optional call period. Accordingly, we don't -- do not regard a decision to leave an instrument outstanding on the first day of that period as any signal of a non-call event.

And consistently with what we previously communicated, we want to address our hybrid as close as possible to the reset dates in order to keep on to the existing coupons and then, of course, opportunistically monitor any market windows that may be in place. We remain focused on supporting the ICR and the deleveraging objectives, and managing the hedges as efficiently as possible is a key part of this effort. We will continue to monitor the market towards the upcoming reset date, and we will take appropriate actions subject to the market conditions.

And finally, let me reiterate our deleveraging objective. The privatization tool is something that we will continue to use. We are very focused on making sure that we get the most of the program from our shareholder value accretion.

But as Paul also alluded to, we do see flexibility to also adapt to market conditions. And even if we were to see some pressure on prices on the back of the increase in interest rates, it is still highly profitable for the company to continue the program. So we don't see any indication that the privatization program is set to scale materially down from our end.

And we are focused on continuing to build headroom to our financial metrics, also on the back of the renewed interest rate volatility that we have seen in the past month. With that, I want to open up for Q&A.

QUESTIONS AND ANSWERS

Operator^ Thank you. (Operator Instructions).

We are now going to proceed with our first question. And the question comes from the line of Neeraj Kumar from Barclays. Please ask your question.

Neeraj Kumar^ Morning, everyone. I'll start with the hybrids. So as I mentioned, you'll try to address it as close to reset date as possible. Looking at how your long-end hybrids are pricing, looks like a clean call and replace is out of picture. So how do you think about the potential exchange scenarios here? And is there a potential to club 2 or 3 hybrids, or is it going to be like one-by-one solution?

Christian Fladeland^ So given that we are in a very volatile market environment now and given how much has moved in the last couple of weeks even, but also over the last six weeks, I don't want to speculate in what scenarios that might prevail when you get closer to the reset date. But we will continue to monitor the market conditions.

Neeraj Kumar^ Got it. You also have a $675 million unsecured bond maturing in Q1 next year. How do you plan to refinance that, through unsecured bonds or the secured market?

Christian Fladeland^ Right now, we definitely see that the secured market is far more competitive, but we remain open. We have fully committed lines to take it out via secured bank financing. So that is our baseline assumption, but we will, of course, continue to monitor how the capital markets look when we get closer to that maturity. Given it's a 1.38% coupon bond, it will definitely not be paid before maturity.

Neeraj Kumar^ Got it. Now coming to the S&P, I mean, the refinancing assumptions look quite optimistic looking at where your senior and hybrid of trading and coupling it with valuation decline expectations you alluded to in your remarks, is it fair to say that you do not see any upside potential for your ratings in the near term?

Christian Fladeland^ I definitely see that our ICR recovery will continue. But needless to say, even with our in-place hedging profile and our deleveraging momentum, it has set back the pace of the recovery. So to look at the material headroom to the 1.8%, where we not only hit it this quarter with a rounding but actually with two decimals, I definitely believe that will move slower than if we look one quarter back. So I don't see that we will be at a -- we will be flat territory in the short-term. That is correct.

Neeraj Kumar^ Got it. Now coming to Germany, you said Germany is uninvestable, you are being robbed, and you won't allocate capital to the country. Let me ask you this. How about withdrawing the capital from the country through disposals? Can you really sell

your German assets, say, less than 10% discount to current book values, or that's something you don't want to do despite the unfavorable market environment?

Christian Fladeland^ I think it's important to say that I haven't communicated that Germany is a lost cause. I just say that if this legislation were to stand up in court, then Germany becomes uninvestable. And for new investors, or for that matter, ourselves allocating new capital to the market, it's obvious that people want to wait and see that you actually get this fully resolved.

And on that basis, I also think I answered the question that our existing exposure, we will keep on to that. We will manage that in the best way as possible, but we will definitely not do anything eagerly on the sell side either, because when you have this binary risk, you need to manage that risk out, and then you can evaluate what you want to do on the back of it. But right now, I only think the right thing to do is not increase our exposure to Germany and manage the existing portfolio that we have.

Neeraj Kumar^ Got it. Also, can you help us understand your rationale behind recent acquisitions in Dutch and Danish market? How do they align with your deleveraging strategy?

Christian Fladeland^ So those transactions is a key part of our reinvestment program where we want to make sure that we optimize the tax position from the Dutch sales. We have repeated that on a couple of quarterly calls where if we are to reinvest our proceeds from the Dutch reinvestment program -- sorry, the privatization program, we will neutralize the capital gains tax payable.

We want to do that with as much delayed payment as possible, i.e., forward purchases where we have very limited capital committed upfront is the preferred route. So those transactions are part of that. Of course, to the extent that we feel that our privatization program were to slow down in pace, and we would not be able to net deleverage through the privatizations, then we would also reduce any new investments in order to optimize the tax position.

But it is important to realize that these acquisitions are mainly to be settled far ahead in the time. It was only a smaller part in Denmark that was actually closed early on. And we are still deleveraging on a net basis, as you'll see in our Q3 results.

Neeraj Kumar^ Got it. And last one on the shareholder agreement, given you spoke on length for that one. Is it fair to say if hybrids was to witness 10% valuation decline, then AB's proportion of capital reduces, as in AB loses more than Elektra as per the shareholder agreement if there was to be negative valuations?

Christian Fladeland^ Could you repeat the first part, Neeraj? I didn't get that.

Neeraj Kumar^ Yes, so basically if hybrids was to see 10% valuation decline, is it fair to say AB loses more than Elektra given how different classes of shares you have?

Christian Fladeland^ Right.

Neeraj Kumar^ Got it. Thank you.

Operator ^Thank you. (Operator Instructions).

We are now going to proceed with our next question. And the question comes from the line of Florent Egonneau from Citi. Please ask your question.

Florent Egonneau^ Good morning. Thank you for taking my question and congrats on the good quarter. Just in terms of dividends, is there any update you want to give to the market about its timing for restatement? That's the first question. And the second question, on the hybrid, you mentioned you want to keep them as close as possible to the reset date. And I didn't hear what you said about refinancing and exchange. If you can repeat, please. Thank you.

Christian Fladeland^ If we start with the first part, I think already in July we started to form the basis based on the interest rate volatility in Q2 that dividends are not to be considered before we feel we have sufficient headroom within the financial policy, both on a forward-looking pro forma basis, but also when we look at it pro forma backward-looking. And that also meant that I believe that the dividend consideration is definitely being postponed out of fiscal year '26, i.e., no dividends in '27. And I also said then we need to see how '27 will evolve.

And with the Q3 volatility, of course, I don't want to go into forecasting anything into 2028, but I can only reinstate what I said during the Q2 earnings call with even more emphasis that we want to build more headroom. And the current volatility also dictates that before there is any dividends on the table. So whether that will be in '28, we will wait and see, but it will surely not be in '27 based on fiscal year '26.

On the hybrid side, we definitely have a clear view that, as we've also done with our most recent hybrids that we want to refinance them when we believe that the market window is right. And we want to do it as close as possible to the reset date. And then we are just looking what will happen in the coming months. There has happened a lot in the six weeks. Let's see what will happen in the next six weeks. But we'll continue to monitor the market conditions.

Florent Egonneau^ Okay, thank you. And you haven't used any S&P allowance yet, and you already own a number of hybrids on your balance sheet. Would you be looking at reducing the stack?

Christian Fladeland^ We would definitely look at that on a continuous basis. We have been doing it a bit opportunistically in the most recent two hybrid refinancing's where we look at how do we make benchmark issuance and how do the market conditions look like. So we would definitely continue to evaluate what we believe is the appropriate sizing of

refinancing our existing hybrid stack, of course, always with due consideration for the permanence criteria and our long-term obligations to the hybrid stack.

Florent Egonneau^ Okay. Thank you.

Operator^ There are no further questions on the phone, so I'll now hand back to you for the webcast questions. Thank you.

Paul Spina^ Christian, we have one question that we haven't touched on regarding valuation expectations through the end of the year and into early next year, if you could comment from that perspective.

Christian Fladeland^ Yes, I'm happy to do that. So as you saw in our Q3 pictures, we were moderately down, and this was very much on the back of sentiment adjustments, i.e., there was not a lot of transactions completed here in Q3, which It's not that surprising when we look at the volatility coming up towards the summer break and the volatility here in Q3.

Based on that, I would also say that for transactions to document a valuation trend here in Q4, they need to be quite advanced by now, and our clear view is that there is still a material slowdown happening in the investment market due to the current uncertainty. And that increases the sentiment judgments that need to be made by [valuers].

And in the lack of transaction evidence and on the back of the current volatility, we see that there is a tendency, for good reasons, for [valuers] to take a more cautious approach. So I would anticipate that Q4 would be flat to moderately down, subject to no material changes in the macro environment in the next two months.

Paul Spina^ I don't see anything else on the webcast we haven't already commented on.

Christian Fladeland^ All good. But if that is the case, then let me round off. Thank you very much, everybody, for joining. As I said at the beginning of the call, we are always available on email or phone or via Bloomberg if you have any follow-up questions. And then I wish all of you a great day.