

Orava Residential REIT 1 January – 30 September report

1 July – 30 September 2014

- Revenue: EUR 4.4 million (1 July – 30 September 2013: EUR 2.7 million).
- Comprehensive profit: EUR 1.9 million (EUR 2.1 million)
- Earnings per share: EUR 0.42 (EUR 1.43)
- Economic occupancy rate: 89.7%
- Gross rental yield: 7.0%
- Net rental yield: 4.0%
- Profit from sales and changes in value: EUR 2.6 million (EUR 1.9 million)
- Total dividends distributed during the period under review: EUR 0.28 per share (EUR 0.27 per share)

1 January – 30 September 2014

- Revenue: EUR 12.8 million (1 January – 30 September 2013: EUR 4.7 million).
- Comprehensive profit: EUR 6.7 million (EUR 2.9 million)
- Earnings per share: EUR 1.55 (EUR 1.97)
- Economic occupancy rate: 88.2% (95.0%)
- Gross rental yield: 6.7% (8.1%)
- Net rental yield: 4.1% (4.7 %)
- Profit from sales and changes in value: EUR 8.2 million (EUR 2.6 million)
- Total dividends distributed during the period under review: EUR 0.84 per share (EUR 0.81 per share)

The net asset value per share of Orava Residential Real Estate Investment Trust plc ("Orava Residential REIT") increased to EUR 12.50 (+8,3 %) from EUR 11.54 at the beginning of the year. The company has continued growing, and the value of its investment properties totalled EUR 121.6 million (31 December 2013: EUR 79.2 million) at the end of the period.

CEO's comments:

"Orava Residential REIT's financial result for the period under review was in accordance with its objectives. During the third quarter, the company decided on acquisitions that increased the fair value of its investment properties over EUR 120 million.

The price development for apartments remained modest in 2014 due to the prolonged generally poor economic situation. On the other hand, the prevailing market situation offered wholesale buyers an opportunity to make favourable acquisitions. In the third quarter an acquisition of 54 apartments was completed and a binding agreement of acquisition of 59 apartments was made. These apartments are located in 7 different properties, and the total debt-free purchase price was EUR 15.0 million. The fair value of the investment properties owned by the Residential REIT rose to EUR 121.6 million by the end of September.

The apartment sales, which were below the target level in the first half of the year, improved during the third quarter and especially, after the period under review, in October. In addition to the apartment sales, the selling of lots added to the total investment property sales, which amounted to EUR 5.5 million from the beginning of the year to the end of October.

The economic occupancy rate decreased from the previous quarter's rate of 92,7 % to 89.7 % in the third quarter (1 July – 30 September 2014). The decrease was primarily caused by the impact of both apartments in buildings completed in June and apartments acquired without tenants in July.

In the third quarter, maintenance and repair costs of investment properties rose compared with the previous quarter mainly due to seasonal fluctuations.

The number of Orava Residential REIT shareholders continued to grow and amounted to approximately 5,200 in October. Trading in the company's shares on the Helsinki Stock Exchange has continued to be lively; the average daily turnover in January–September 2014 was approximately EUR 251,000. In August and September, the company issued 274,806 new shares in directed issues. The new shares do not entitle holders to dividend payments in 2014.

The company estimates that it has favourable preconditions for maintaining good profitability and exceeding the targeted total return of 10% on shareholders' equity in 2014."

Operating environment

National economy

The growth in the Finnish gross domestic product over the current year is forecasted to amount to -0.4% – 0.0%, and over next year to +0.6% – +1.2%. The growth in private consumption, which has a key impact on the housing market, is forecasted to be approximately -0.3% – +0.3% over the current year, and +0.2% – +1.0% over 2015. The level of market interest rates in the euro area has continued to fall, and short-term rates are also expected to remain at less than 2% for the next five to six years. The estimate is based on the most recent economic forecasts by 15 parties drawing up forecasts on the Finnish economy and the market interest rate expectations calculated on the basis of the euro interest rate curve published by the European Central Bank.

The strengthening of the housing market as a result of overall economic activity picking up seems to have been postponed and will remain somewhat weaker in 2015 than forecasted previously.

Demand in the housing market

During July–September 2014, households drew down EUR 3.8 billion in new mortgages, or 3% less than a year previously according to statistics from the Bank of Finland. The euro-denominated mortgage base totalled EUR 89.4 billion at the end of June, and the annual growth in the mortgage base amounted to 1.7%.

According to the Etuovi.com marketing service, the average marketing period for old apartments in the country overall fell from 119 days in June to 112 days in September, while it was 122 days in September in the previous year.

The demand for apartments has continued to be weak.

Supply in the housing market

According to Statistics Finland, building permits for apartment blocks were granted for 1,162 apartments in August, which was 13% more than a year previously. Correspondingly, in January–August, a total of 12,136 building permits were granted for apartment block apartments, or 25% more than a year previously. The annual change in the sliding annual sum of building permits granted for apartment blocks was +15%.

The three-month change in the housing construction volume index, which describes the value of on-going new construction, was +18% in August, and the change year-on-year was -11%.

Supply in the housing market is still at a low level, even though some signs of a potential recovery can be seen.

Prices, rents and return in the housing market

In the second quarter of 2014, the rents of non-subsidised apartments increased by 3.3% year-on-year. The change in the prices of apartments during the third quarter was -1.0% compared with the situation a year previously. The ratio of housing prices to rents is slightly below the long-term average; the ratio calculated from the square metre prices of the third quarter and rents of the second quarter was 15.8. The 40-year average for the ratio of square metre prices to annual rents in Finland is 16.7.

We continue to expect housing prices throughout the country to start rising slightly during the next 12 months and the growth rate in rents for non-subsidised apartments to remain approximately the same if the market interest rate expectations and economic forecasts prove to be accurate with regard to their essential components affecting the housing market.

Rental operations

Over the period under review, occupancy rates in rental operations were at a lower level year-on-year. The primary reason for this was the acquisitions made at the end of 2013 and subsequently, where the share of apartments acquired without tenants was higher than in the comparison period. In addition, the prolonged generally poor economic situation has made letting slightly more difficult. All new apartments acquired during the third quarter are located in Helsinki, Tampere and Turku metropolitan areas.

The economic occupancy rate for the third quarter was 89.7 %, while it was 88.2 % for the entire January–September period.

At the end of the period, the company had a total of 1,081 residential apartments (2013: 660) and a total of 1,103 leases. There were 963 leases at the end of the period, and 43 apartments were for sale (2013: 32). The figures exclude the 59 new apartments that became rentable in October.

	1.1.-30.9.2014	1.1.-30.9.2013
Gross rental yield, %	6.7	8.1
Net rental yield, %	4.1	4.7
Economic occupancy rate, %	88.2	95.0
Operational occupancy rate, %	88.8	93.9
Tenant turnover/month, %	2.2	2.2

Approximately 24 leases of the entire lease base for residential apartments were agreements valid for a fixed term. A total of 172 agreements were terminated during the period (2013: 83).

Acquisitions

Acquisitions implemented or agreed during the third quarter

Time	Property	Debt-free purchase price (EUR million)	Company loan (EUR million)	Shares (qty)	Apartments (qty)
30 Sep 2014	Apartments from 6 properties (Espoo, Kirkkonummi, Järvenpää, Tampere, Lempäälä and Raisio)	13.5	10.8	-	59
30 Sep 2014	A property in Kotka	1.5	-	114,806	54
TOTAL		15.0	10.8	114,806	113

Through a binding agreement concluded on 30 September 2014, the company acquired 59 apartments from Skanska at a debt-free price of EUR 13.5 million. The transaction was implemented on 29 October

2014. The apartments acquired are new and located in Espoo (4), Kirkkonummi (14), Järvenpää (8), Tampere (3), Lempäälä (17) and Raisio (13). The apartments were acquired without tenants.

Through a transaction concluded on 30 September 2014, the company acquired 54 apartments located in Kotka from A. Ahlström Real Estate Ltd at a debt-free purchase price totalling EUR 1.45 million. The transaction was funded by a directed issue allocated to A. Ahlström Real Estate Ltd, where A. Ahlström Real Estate subscribed for 114,806 new shares issued by the company. The subscription price of the new shares was EUR 12.63, which was based on the weighted average price over the five stock exchange trading days preceding the start of the subscription period. The new shares do not entitle holders to dividends paid during 2014.

Apartment sales

During the period under review, the company sold a total of 21 residential apartments from nine different housing companies. The debt-free selling prices of the apartments totalled EUR 2.0 million. Under the challenging market conditions, the total number of apartment sales is lagging behind the objective. The brokerage fees for the sales amounted to EUR 93 thousand.

In accordance with the company's investment strategy, the company attempts to sell apartments at 10% of the value of investment properties on the company's opening balance sheet annually so that apartments released from rental use are sold one by one.

Investment properties on 30 September 2014

The fair value of investment properties at the end of the period totalled EUR 121.6 million (31 December 2013: EUR 79.2 million). Orava Residential REIT had a total of 1,162 apartments on 30 September 2014 (31 December 2013: 791) with an aggregate leasable surface area of approximately 72,726 m² (31 December 2013: 50,129 m²). The apartments were located at 60 different housing companies; in 15 of the cases, the company's holding is 100%. More detailed information on the investment properties is provided in the tables section.

Age and regional distributions of the investment portfolio (EUR at fair values)

	30.9.2014	30.9.2013
Newer (since 1990)	61%	23%
Older (before 1990)	39%	77%
Helsinki region	43%	34%
Large cities	24%	17%
Rest of Finland	33%	48%

The values of the apartments owned by the REIT are measured at fair value at least on a monthly basis, and are published at least on a quarterly basis, and always when a change in the REIT's economic situation requires it, or when changes in the condition of the real estate have a material impact on the value of the holdings of the REIT. A more detailed account of the apartment price measurement model is presented in the 2013 financial statements.

Consolidated profit for the period

Consolidated revenue for the period totalled EUR 12.8 million (2013: EUR 4.7 million). The revenue was divided into income from ordinary operations of EUR 4.5 million (2013: EUR 2.2 million) and capital gains of EUR 8.2 million (2013: EUR 2.6 million). Income from ordinary operations includes rental income, compensation for use and other income. Capital gains are made up of profit from sales of investment properties less sales commissions for sold apartments, as well as the change in the fair value of apartments.

Operating expenses totalled EUR 4.6 million (2013: EUR 1.5 million), of which maintenance costs and annual repairs accounted for EUR 1.8 million (2013: EUR 0.9 million) and the allocated performance-based management fee accounted for EUR 1.6 million. The increase in expenses results from the increase in the investment portfolio.

Operating profit amounted to EUR 8.2million (2013: EUR 3.3 million)

Financial income and expenses amounted to EUR -1.2 million (2013: EUR -471 thousand) and taxes for the period totalled EUR 28 thousand (2013: EUR 35 thousand).

Profit for the period amounted to EUR 7.0 million (2013: EUR 2.8 million). Comprehensive income items totalled EUR -281 thousand (2013: EUR 150 thousand) and comprehensive profit for the period amounted to EUR 6,7 million (2013: EUR 2,9 million).

Major events 1 July – 30 September 2014

On 6 August 2014, Orava Residential REIT signed a second convertible bond of EUR 1 million with the hedge fund UB View in accordance with the terms and conditions of the previous bond (26 June 2014). The 80,000 new shares allocated by Orava Residential REIT to itself in the charge-free share issue on 7 August 2014 were recorded in the Trade Register on 15 August 2014. After the share issue, the number of the company's shares totalled 4,813,317.

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Through a transaction concluded on 30 September 2014, the company acquired 54 apartments located in Kotka from A. Ahlström Real Estate Ltd at a debt-free purchase price totalling EUR 1.45 million. The transaction was funded with a directed issue allocated to A. Ahlström Real Estate Ltd, where A. Ahlström Real Estate subscribed for 114,806 new shares issued by the company. The subscription price of the new shares was EUR 12.63, which was based on the weighted average price over the five stock exchange trading days preceding the start of the subscription period. In addition, the company allocated a charge-free share issue of 80,000 shares to itself. The new shares do not entitle holders to dividends paid during 2014.

Under the terms and conditions of the convertible bonds concluded by the company, the company had assigned a total of 157,590 of its shares in conversions of the convertible bond by 30 September 2014. After these conversions, the company owned 102,410 treasury shares.

Events after the financial period

The 114,806 shares allocated by Orava Residential REIT to A. Ahlström Real Estate Ltd in connection with the property acquisition on 30 September 2014 and the 80,000 new shares allocated to the company itself in a charge-free share issue were recorded in the Trade Register on 8 October 2014. After the share issues, the number of the company's shares totals 5,008,123. NASDAQ OMX Helsinki ("the Helsinki Stock Exchange") approved the listing application concerning the issued shares of Orava Residential REIT. The shares were admitted to trading on 10 October 2014. The trading code of the shares on the main list of the Helsinki Stock Exchange is OREIT0114.

The shares assigned by the company are recognised under the company's equity items in accordance with the convertible bond agreements concluded in June and August. The increase in share capital was

EUR 1.6 million, in addition to which the reserve for invested unrestricted equity was increased by EUR 0.4 million. After the increases, the company's share capital equals EUR 49,057,130.00. After the registration of the new shares in October the NAV calculated with the end of September figures was EUR 12.27 per share.

The transaction concerning 59 apartments agreed with Skanska Rakennus Oy in September 2014 was paid according to plan on 29 October 2014. The apartments purchased are located in six new properties: AsOy Espoon Albert (4 apartments), AsOy Kirkkonummen Tammi (14), AsOy Järvenpään Saundi (8), AsOy Härmälänrannan Nalle (3), ASsOy Lempäälän Tikanhovi (17) and AsOy Raisio Valonsäde (13). The apartments were without tenants at the time of the acquisition.

Future outlook

Orava Residential REIT estimates that it has the prerequisites for maintaining good profitability in 2014 and exceeding the targeted total return of 10% on shareholders' equity. However, the financial result for the fourth quarter is expected to remain lower than that for the third quarter.

The value of the apartments in the investment portfolio is expected to fall slightly during the remainder of the year and start to rise moderately next year as a result of the forecasted overall strengthening of economic development. Rental income is estimated to remain approximately at the level of the third quarter during the remainder of the year. The profit impact of the acquisition of properties is expected to decrease towards the end of the year, as it is anticipated that the total number of acquisitions will decline somewhat compared with the first three quarters of the year. The ratio of maintenance and repair costs to the value of investment assets is likely to remain around the level it has been during 2014.

The company also estimates that it has the prerequisites for increasing its business operations and maintaining good profitability in 2015.

Helsinki, 6 November 2014

Orava Residential Real Estate Investment Trust plc

Board of Directors

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Appendix:

Interim Report 1 January – 30 September 2014

Rules for real estate investment operations