

Orava Residential REIT plc

Financial statements bulletin 1 March 2017 at 8:00 a.m.

ORAVA RESIDENTIAL REIT PLC FINANCIAL STATEMENTS BULLETIN 1 JANUARY – 31 DECEMBER 2016

1 October – 31 December 2016

- Revenue: EUR 2.6 million (1 October – 31 December 2015 EUR 4.5 million)
- Comprehensive profit: EUR –0.5 million (EUR 1.3 million)
- Earnings per share: EUR –0.06 (EUR 0.16)
- Economic occupancy rate: 93.2% (89.7%)
- Gross rental yield: 6.8% (7.0%)
- Net rental yield: 3.7% (3.7%)
- Profit from assignments and changes in fair value: EUR –0.7 million (EUR 1.8 million)
- Total dividends distributed during the period under review: EUR 0.27 per share (EUR 0.30 per share)

1 January – 31 December 2016

- Revenue: EUR 13.9 million (1 January – 31 December 2015: EUR 17.5 million)
- Comprehensive profit: EUR 1.5 million (EUR 7.4 million)
- Earnings per share: EUR 0.17 (EUR 0.96)
- Economic occupancy rate: 91.3% (90.4%)
- Gross rental yield: 6.8% (6.8%)
- Net rental yield: 3.8% (4.0%)
- Profit from assignments and changes in fair value: EUR 1.4 million (EUR 7.4 million)
- Total dividends distributed in 2016: EUR 1.08 per share (EUR 1.20 per share)

Adjusted net assets per share of Orava Residential REIT plc amounted to EUR 10.11 on 31/12/2016, while they were EUR 11.63 at the beginning of 2016. The value of the company's investment properties rose to EUR 210.9 million at the end of the period under review (31 December 2015: EUR 195.9 million).

The debt-free prices of apartments sold by Orava Residential REIT's after the period under review (between 1 January and 20 February 2017) totals EUR 2.4 million.

The Board of Directors' proposal to the General Meeting concerning dividends to be paid in 2017 is EUR 0,03 per share for each quarter, i.e., a total of EUR 0,12 per share.

CEO's comments:

"The financial results of Orava Residential REIT for the fourth quarter and for the whole of 2016 were poor. As in previous years, the housing prices developed very little, in addition to which the slow growth of the fund meant that the impact of acquisitions on the result was decidedly smaller than in the earlier years following the listing of the company's shares.

The slow recovery of the Finnish housing market continued during 2016, albeit that the prices again took a downward turn during the fourth quarter. The change in the fair value of the apartments acquired for the housing fund portfolio was –0.2 percent from the third quarter, while the change for the year was +0.2 percent.

The value of housing units acquired during the fourth quarter was EUR 3.8 million, while total acquisitions for the year were just over EUR 20 million

The economic occupancy rate continued to improve during the fourth quarter and rose from 92.0 to 93.2 percent. The economic occupancy rate for the whole year was 91.3 percent. As expected, the proportion of investment property maintenance and repair costs of the value of the portfolio increased again towards the end of the year and was 3.1 percent for the last quarter, while the figure for the whole year was 2.7 percent. Correspondingly, net rental yield decreased to 3.7 percent during the fourth quarter and was 3.8 percent for the whole year.

Divestments of apartments continued to increase during the fourth quarter and amounted to a record-breaking figure of EUR 3.9 million; the sum total of debt-free sales prices of apartments for the year was EUR 11.6 million.

At the turn of the year, Orava Residential REIT had 7,500 shareholders. Trading volume of the company's share on the Helsinki Stock Exchange has remained almost unchanged: the average daily turnover in January–December was slightly over EUR 240,000.

The company estimates that its result for 2017 would be positive and in the range of EUR 2–5 million.”

Operating environment

National economy

The growth of Finland's GDP in 2016 is estimated to be between +0.9 and +1.5 percent, and it is expected to remain in that bracket in 2017. The growth of private consumption, very important for the housing market, is estimated to be between +1.4 and +2.1 percent in 2016, while it is expected to be between +0.8% and +1.3% this year. The market interest rates in the euro area are still exceptionally low, and short-term market rates are also expected to remain below one percent for the next four to five years.

The estimate is based on the most recent economic forecasts by 15 parties drawing up forecasts on the Finnish economy, compiled by the Federation of Finnish Financial Services, and the market interest rate expectations calculated on the basis of the euro interest rate curve published by the European Central Bank.

We expect the slow strengthening of the housing market to continue.

Demand in the housing market

According to statistics from the Bank of Finland, during October–December, households drew down EUR 4.4 billion in new mortgages, or 3 percent more than the year before. The euro-denominated mortgage base totalled EUR 94.1 billion at the end of December, and the annual growth in the mortgage base was 2.4%.

According to the January statistics from the Central Federation of Finnish Real Estate Agencies, the number of transactions in old apartments was over 8 percent higher than in the corresponding period in the previous year. The average marketing period for old apartments in the country as a whole, according to the Finnish marketing service Etuovi.com, increased from 83 days in October to 104 days in January, while it had been 94 days in January in the previous year.

The demand for apartments seems to have continued to strengthen moderately during the last quarter.

Supply in the housing market

According to Statistics Finland, building permits for apartment blocks were granted for 2,000 apartments in November, 35 percent more than last year. Correspondingly, building permits for apartment blocks were granted in January–November for a total of 26,102 apartments, or 26 percent more than last year. The annual change in the sliding annual total of building permits granted for apartment also increased to +26 percent.

The three-month change in the housing construction volume index that describes the value of on-going new construction was –1 percent in November, and the change year-on-year was +13 percent.

According to the February confidence indicator survey of the Confederation of Finnish Industries, the balance figure for construction production for the past three months was +8 points in the fourth quarter, while it was +13 points in the previous quarter and +2 points a year before. The balance figure for the three-month production expectation was +9 points, compared to 0 points in the previous quarter and –2 points a year before. The number of unsold residential apartments, compared to the normal situation, fell from –33 in the third quarter to –22 in the fourth quarter; a year ago, the balance figure was +10 points.

The increase of supply in the housing market seems to have slowed down slightly during the fourth quarter.

Prices, rents and returns in the housing market

In the fourth quarter of 2016, the rents of non-subsidised apartments increased by 2.4% year-on-year. According to the housing price index from Statistics Finland, the housing prices increased during the fourth quarter by 1.2 percent year-on-year. The change in housing prices from the previous quarter calculated by Statistics Finland was –0.4%, which we estimate to correspond to an increase of approximately 0.5% when converted seasonally. The ratio of housing prices to rents is slightly below the long-term average; the ratio calculated from the square metre prices of apartment block apartments in the fourth quarter and the rents of non-subsidised apartments was 15.0. The 43-year average for the ratio of square metre prices to annual rents in Finland is 16.9.

We expect housing prices in the country as a whole to increase by 1 to 3 percent during the next 12 months, and the growth rate in rents for non-subsidised apartments to remain approximately the same if the market's interest rate expectations and economic forecasts are correct with regard to their essential components affecting the housing market.

Dividend

2017

The parent company's distributable funds were EUR 1,281,802.44 on 31 December 2016.

The Board of Directors proposes to the Annual General Meeting that a total of EUR 0.12 per share be distributed from the result for 2016 in dividends total EUR 1,151,869.20 and that the Board of Directors be authorised to decide on the amounts of dividends to be paid in each quarter.

Future outlook

Orava Residential REIT estimates that its result for 2017 would be positive and in the range of EUR 2–5 million.

The change in the value of current apartments in the investment portfolio is expected to be slightly positive during this year. The gross and net rental yield is expected to remain approximately at its present level, and the volume of acquisitions is expected to remain at the last year's level or to increase slightly. The ratio of maintenance and repair costs to the value of investment properties is expected to slightly decrease from the previous year.

The Financial Statements Bulletin 2016 and the current rules for real estate investment operations are available on the company's website at www.oravaasuntorahasto.fi, and they are included as an appendix. The audited Financial Statements and Board of Directors' Report will be published on the company's website on 1 March 2017.

Helsinki, 28 February 2017

Orava Residential REIT plc
Board of Directors

Additional information:

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Appendix:

[Financial Statements Bulletin 1 January – 31 December 2016](#)

[Rules for real estate investment operations](#)