

Orava Residential REIT plc

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## **ORAVA RESIDENTIAL REIT PLC INTERIM REPORT 1 JANUARY – 31 MARCH 2017**

1 Jan – 31 Mar 2017

- Revenue: EUR 2.4 million (1 January – 31 March 2016: EUR 4.8 million)
- Result EUR -978 thousand (EUR 1.9 million)\*
- Earnings per share: EUR -0.10 (EUR 0.23)
- Comprehensive profit: EUR -918 thousand (EUR 1.8 million)
- Economic occupancy rate: 93.8% (90.0%)
- Gross rental yield: 6.9% (6.8%)
- Net rental yield: 3.6% (3.6%)
- Profit from assignments and changes in fair value: EUR -0.9 million (EUR 1.9 million)
- Total dividends distributed during the period under review: EUR 0.03 per share (EUR 0.27 per share)

\* Income statement item Profit/loss for the period.

Net assets per share of Orava Residential REIT plc amounted to EUR 9.97 on 31 March 2017, while they were EUR 10.11 at the beginning of 2017. The value of the company's investment properties was EUR 207.0 million at the end of the period under review (31 December 2016: EUR 210.9 million).

After the reporting period, apartments of Orava Residential REIT have been sold during the period 1 April - 12 May 2017 at debt-free prices totalling EUR 0.5 million.

Orava Residential REIT specifies its future outlook and estimates that its result for 2017 would be in the range of EUR +1 to +4 million. (Previously EUR +2 to +5 million.)

### **CEO's comments:**

"The first quarter results of Orava Residential REIT were unsatisfactory. The value of the investment portfolio decreased slightly as in the previous quarter, and no apartments were acquired.

The prices of old apartments in the whole country still did not start rising. According to Statistics Finland, the prices decreased during the first quarter by 0.3 per cent from the previous quarter, while the six-month change was -0.9 per cent. In spite of the recovery of the general economic situation, the prices of old apartments in Finland are still lagging clearly behind the rest of Europe; according to the latest statistics by Eurostat, the prices of apartments rose during the last 12 months by 4.7 per cent in the whole EU, while the increase in Finland was exactly one per cent. Weaker price trends than that in Finland were reported for two Member States.

In Finland, the demand appears to have focussed on new apartments: according to Statistics Finland, their prices increased by 5.4 per cent during the last 12-month period. This trend has persisted for a quite a while: according to Statistics Finland, the prices of new apartments have increased by 28 per cent during this decade while the prices of old apartments have only increased by 6 per cent. We expect that the difference between the price trends of new and old apartments will reduce in the future.

In order to cut the costs of the residential REIT, housing company loans worth EUR 24 million were subjected to competitive tendering, and the same process is expected to be completed for the balance of EUR 50 million by late autumn. We have succeeded in decreasing the already decided margins of housing company loans by an average of 0.5 percentage points, and we expect to achieve the same result with the rest of these loans. The competitive tendering processes regarding other service providers will be implemented starting from the second quarter.

The economic occupancy rate continued to improve during the first quarter and rose from 93.2 to 93.8 percent. As expected, the proportion of investment property maintenance and repair costs of the portfolio value increased again during the first quarter, largely due to seasonal fluctuation, from 2.9 per cent in the previous quarter to 3.1 per cent. Correspondingly, net rental yield decreased by one-tenth of a per cent from the previous quarter to 3.6 per cent in the first quarter. The sum total of debt-free transaction prices of apartment sales was EUR 3.4 million, the second-best result in the history of the residential REIT.

Given the current price of our shares, we are of the opinion that acquisition of the company's own shares would be efficient way to increase the residential REIT's net assets per share. However, the information available indicates that the REIT Tax Exemption Act currently prevents the acquisition of the company's own shares. We are in the process of investigating the measures available and the prerequisites for acquiring the company's own shares.

At the end of the reporting period, Orava Residential REIT had just over 7,200 shareholders. The trading volume of the company's shares on the Helsinki Stock Exchange has remained almost unchanged: the average daily turnover in January-March was EUR 219,000.

The company specifies its future outlook and estimates that its result for 2017 would be in the range of +1 to +4 million euros."

## **Operating environment**

### National economy

Finnish GDP growth is expected to settle between +1.2% and +1.7% this year and stay between +1.2% and +1.8% next year. The growth of private consumption, very important for the housing market, is expected to be between +0.9% and +1.4% this year, while it is expected to remain between +0.8% and +1.4% next 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 three to four 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, households drew down EUR 4.1 billion in new mortgages during January-March, 11 per cent more than the year before. The euro-denominated mortgage base totalled EUR 94.3 billion at the end of December, and the annual growth in the mortgage base was 2.3 per cent.

According to the January-March statistics of the Central Federation of Finnish Real Estate Agencies, the number of transactions regarding old apartments was over 6.5 percent higher than in the corresponding period in the previous year. According to the Finnish Etuovi.com marketing service, the average marketing period of old apartments in the country as a whole decreased from 104 days in January to 66 days in April, while it was 67 days in April of the previous year.

The slight increase in the demand for apartments seems to have continued in the first quarter.

### Supply in the housing market

According to Statistics Finland, building permits for apartment blocks were granted for 1,966 apartments in February, 35 per cent less than in the previous year. Correspondingly, in January-February, building permits for apartment blocks were granted for a total of 3,208 apartments, 24 per cent less than in the previous year. At the same time, the annual change in the sliding annual sum of building permits granted for apartment blocks decreased to +18 per cent.

The three-month change in the housing construction volume index that describes the value of on-going new construction was -13 per cent in February, and the change year-on-year was +12 per cent.

According to the May confidence indicator survey of the Confederation of Finnish Industries, the balance figure for construction production for the past three months was +23 points in the first quarter of the year, while it was +8 points in the previous quarter and +4 points a year before. The balance figure for the three-month production expectation was +34 points, compared to +9 points in the previous quarter and +41 points a year before. The number of unsold residential apartments, compared to the normal situation, fell from -22 in the third quarter to -18 in the first quarter; a year ago, the balance figure was -50.

The increase of supply in the housing market has continued to slow down slightly during the first quarter.

#### Prices, rents and returns in the housing market

In the first quarter of 2017, the rents of non-subsidised apartments increased by 2.4 per cent year-on-year. According to the housing price index from Statistics Finland, the housing prices increased during the first quarter by 0.4 per cent year-on-year. The change in housing prices from the previous quarter calculated by Statistics Finland was -0.3 per cent, which we estimate to correspond to a change of approximately -0.6 per cent when seasonally adjusted. The ratio of housing prices to rents is slightly below the long-term average; the ratio calculated from the prices per square metre of apartment block apartments in the first quarter and the rents of non-subsidised apartments was 14.9. The 43-year average for the ratio of square metre prices to annual rents in Finland is 16.9.

We still expect housing prices in the country as a whole to increase by 1 to 3 per cent 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.

#### **Future outlook 2017 (Specified)**

Orava Residential REIT estimates that its result for 2017 would be in the range of EUR +1 to +4 million. (Previously EUR +2 to +5 million.)

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

The whole Interim Report 1 January – 31 March 2017 and the current rules for real estate investment operations are available on the company's website at [www.oravaasuntorahasto.fi](http://www.oravaasuntorahasto.fi), and they are included as an appendix.

Helsinki, 17 May 2017

Orava Residential REIT plc  
Board of Directors

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Appendix:  
Interim Report 1 January – 31 March 2017  
Rules for real estate investment operations