

Orava Residential REIT plc

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## **ORAVA RESIDENTIAL REIT PLC INTERIM REPORT 1 JANUARY–30 SEPTEMBER 2017**

1 July–30 September 2017

- Revenue: EUR 2.9 million (1 July–30 September 2016: EUR 3.5 million)
- Result: EUR 109,000 (EUR 518,000)\*
- Earnings per share: EUR 0.01 (EUR 0.06)
- Comprehensive profit: EUR 109,000 (EUR 521,000)
- Economic occupancy rate: 94.6% (92.0%)
- Gross rental yield: 7.0% (6.9%)
- Net rental yield: 4.3% (4.2%)
- Profit from assignments and changes in fair value: EUR -0.5 million (EUR 0.3 million)
- Total dividends distributed in the third quarter: EUR 0.03 per share (EUR 0.27 per share)

1 January–30 September 2017

- Revenue: EUR 8.2 million (1 January–30 September 2016: EUR 11.3 million)
- Result: EUR -0.8 million (EUR 2.0 million)\*
- Earnings per share: EUR -0.09 (EUR 0.23)
- Comprehensive profit: EUR -0.8 million (EUR 1.9 million)
- Economic occupancy rate: 94.2% (90.7%)
- Gross rental yield: 7.0% (6.9%)
- Net rental yield: 4.1% (3.9%)
- Profit from assignments and changes in fair value: EUR -1.8 million (EUR 2.0 million)
- Total dividends distributed during the period under review: EUR 0.09 per share (EUR 0.81 per share)

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

Net assets per share of Orava Residential REIT plc amounted to EUR 9.94 on 30 September 2017, while they were EUR 10.11 at the beginning of 2017. The value of the company's investment properties amounted to EUR 203.1 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 October–17 November 2017 at debt-free prices totalling EUR 1.1 million. The sales of apartments this year have totalled EUR 8.3 million by 17 November 2017.

Orava Residential REIT estimates that its result for 2017 will be in the range of EUR -1 to +2 million (previously 0 to +3 million).

## **CEO's comments:**

“The result of Orava Residential REIT continued improving slightly from the previous quarter, but still fell short of the target. The improvement was above all based on cutting costs.

The annual increase in the prices of old apartments in the whole country, which is crucial for the financial result of Orava Residential REIT, was still only about one per cent at the end of the period under review. Helsinki, Tampere, Turku and Lahti achieved approximately three per cent increases. In turn, the prices of new apartments have continued to increase by roughly five per cent per year. After the period under review, in October-November, the prices of old apartments in the whole country seem to have picked up slightly from the third quarter. The value of Orava Residential REIT's portfolio changed by -0.1 per cent from the previous quarter.

The significant event during the third quarter was the exchange offer made by Investors House for the shares of Orava Residential REIT. The exchange offer resulted in Investors House becoming the largest shareholder of Orava Residential REIT with a holding of 25.2 per cent.

Operational activities developed positively: the economic occupancy rate of renting activities continued its increase to 94.6 per cent, gross rental yield remained at 7.0 per cent and net rental yield at 4.3 per cent. The maintenance and repair costs of investment properties in relation to the value of the portfolio continued their decrease from the previous quarter 2.8 per cent to 2.5 per cent. Apartment sales increased from EUR 1.6 million in the previous quarter to EUR 2.2 million.

The company estimates that its result for 2017 will be in the range of -1 to +2 million euros.”

## **Operating environment**

Finnish GDP growth is expected to be between +2.2 per cent and +3.3 per cent this year and stay between +1.7 per cent and +2.4 per cent next year. The growth of private consumption, essentially important for the housing market, is expected to be between +1.5 per cent and +2.3 per cent this year, while it is expected to remain between +1.2 per cent and +1.9 per cent next year. The market interest rates in the euro area are still low, and short-term market rates are also expected to remain below one per cent 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 strengthening of the housing market in Finland to continue.

Demand in the housing market

During July–September, households drew down EUR 4.6 billion in new mortgages, 4 per cent more than a year before, according to statistics from the Bank of Finland. At the end of September, the euro-denominated mortgage base totalled EUR 95.7 billion, and the annual growth in the mortgage base was 2.2 per cent.

According to the January-October statistics of the Central Federation of Finnish Real Estate Agencies, the number of transactions regarding old apartments was over 2 per cent higher than in the corresponding period in the previous year. In October, the number of transactions in old apartments increased by almost 6.5 per cent from the previous year.

The average marketing period for old apartments in the country overall increased from 81 days in July to 93 days in October according to the Finnish Etuovi.com marketing service, while it was 83 days in October in the previous year.

The demand for old apartments in the whole country picked up slightly during the third quarter.

### Supply in the housing market

According to Statistics Finland, building permits for apartment blocks were granted for 2,211 apartments in August, 10 per cent less than a year before. Correspondingly, in January–August, building permits for apartment blocks were granted for a total of 22,633 apartments, 15 per cent more than a year before. At the same time, the annual change in the sliding annual sum of building permits granted for apartment blocks decreased to +19 per cent.

The three-month change in the housing construction volume index that describes the value of ongoing new construction was +23 per cent in August, and the change year-on-year was +5 per cent.

According to the October 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 third quarter of the year, while it was +34 points in the previous quarter and +13 points a year before. The balance figure for the three-month production expectation was +6 points, compared to +20 points in the previous quarter and 0 points a year before. The number of unsold residential apartments compared to normal fell from -23 in the second quarter of the year to -32 in the third quarter; a year ago, the balance figure was -33 points.

The increase of supply in the housing market has continued to be slightly subdued during the third quarter.

### Rents and prices in the housing market

According to Statistics Finland, during the third quarter of 2017, the rents of non-subsidised apartments increased by 2.4 per cent year-on-year and by 0,6 per cent from the second quarter.

The change in housing prices in the third quarter according to the housing price index from Statistics Finland was +1.0 per cent year-on-year. The change in the housing price index from the previous quarter calculated by Statistics Finland was +0.1 per cent, which we estimate to correspond to a change of approximately +0.3 per cent when seasonally adjusted.

The Orava 20 index, which describes the price trend for apartment block apartments in 20 major towns in Finland based on the average prices per square metre in advertisements on Oikotie.fi, increased between 30 September 2016 and 30 September 2017 by 0.3 per cent and was at the end of September 2017 at the same level as at the end of June 2017. The twelve-month change in square metre prices, based on the average asking prices for all types housing in the country overall calculated by Etuovi.com, was -2.1 per cent in October and +2.1 per cent from July to October.

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 third quarter and the rents of non-subsidised apartments was 15.2. 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 (amended)**

Orava Residential REIT estimates that its result for 2017 will be in the range of EUR -1 to +2 million (previously 0 to +3 million).

The change in the value of apartments currently in the investment portfolio is expected to be slightly positive during the fourth quarter. The gross and net rental yields are expected to remain approximately at their present levels, and new acquisitions are not likely to take place. The ratio of maintenance and repair costs to the value of investment properties is expected to increase slightly from the third quarter. Due to the low predictability of the change in the value of current apartments, the company's guidance has significant uncertainty.

The whole Interim Report 1 January – 30 September 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, 22 November 2017

Orava Residential REIT plc

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Appendix:

Interim Report 1 January – 30 September 2017

Rules for real estate investment operations