

Orava Residential REIT plc
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ORAVA RESIDENTIAL REIT PLC HALF YEAR FINANCIAL REPORT 1 JANUARY–30 JUNE 2018

1 April–30 June 2018

- Revenue: EUR 3.3 million (1 April–30 June 2017: EUR 3.4 million)
- Profit EUR 305,000 (EUR 34,000)*
- Earnings per share: EUR 0.03 (EUR 0)
- Comprehensive profit: EUR 305,000 (EUR 34,000)
- Economic occupancy rate: 95.0% (94.1%)
- Gross rental yield: 7.1% (7.0%)
- Net rental yield: 4.3% (4.3%)
- Profit from assignments and changes in fair value: EUR -0.2 million (EUR -0.5 million)
- No dividends were paid during the second quarter (EUR 0.03/share)
- EPRA earnings EUR 566,000 (EUR 516,000)
- EPRA earnings per share EUR 0.06 (EUR 0.05)

* Income statement item Profit/loss for the period.

1 January–30 June 2018

- Revenue: EUR 6.6 million (1 January–30 June 2017: EUR 6.7 million)
- Profit: EUR -1.4 million (EUR -0.9 million)*
- Earnings per share: EUR -0.15 (EUR -0.10)
- Comprehensive profit: EUR -1.4 million (EUR -0.9 million)
- Economic occupancy rate: 94.9% (94.0%)
- Gross rental yield: 7.1% (6.9%)
- Net rental yield: 4.1% (3.9%)
- Profit from assignments and changes in fair value: EUR -2.2 million (EUR -1.4 million)
- No dividends were paid during the period under review (EUR 0.06/share)
- EPRA earnings EUR 823,000 (EUR 469,000)
- EPRA earnings per share EUR 0.09 (EUR 0.05)

* Income statement item Profit/loss for the period.

Net assets per share of Orava Residential REIT plc amounted to EUR 9.59 on 30 June 2018, while they were EUR 9.72 at the beginning of 2018. The value of the company's investment properties amounted to EUR 194.6 million at the end of the period under review (31 December 2017: EUR 199.6 million).

After the reporting period, apartments of Orava Residential REIT have been sold during the period 1 July–10 August 2018 at debt-free prices totalling EUR 0.9 million.

CEO's comments:

During the half year, the operational result rose 75 percent compared to year before. Both the economic occupancy rate at 94.9 per cent and the gross rental yield at 7.1 per cent were higher than a year ago.

We succeeded in decreasing both financial and operational expenses during the period under review.

The decrease of expenses is due to the actions for improving the efficiency of operations. EPRA earnings amounted to EUR 823,000 having been EUR 469,000 the year before.

The entire financial results were still affected by the poor value development of the housing portfolio. During the second quarter the values only increased by 0.1% from the previous quarter. Thus the profit for the whole period remained negative.

Orava Residential REIT estimates that its EPRA earnings for 2018 will be better than in 2017 when it was EUR 1.1 million.

Operating environment

Finnish GDP growth is expected to settle between +2.6% and +3.0% this year and stay between +1.9% and +2.5% next year. The growth of private consumption, very important for the housing market, is expected to be between +1.8% and +2.5% this year, while it is expected to remain between +1.5% and +2.2% 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 16 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.

Demand in the housing market

During April-June, households drew down EUR 5.1 billion in new mortgages, or 5.5% more than a year previously according to statistics from the Bank of Finland. At the end of June, the euro-denominated mortgage base totalled EUR 97.1 billion, and the annual growth in the mortgage base was 2.2%.

The average marketing period for old apartments in the country overall increased from 74 days in April to 77 days in July according to the Finnish Etuovi.com marketing service, while it was 81 days in July in the previous year.

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

Supply in the housing market

According to Statistics Finland, building permits for apartment blocks were granted for 2,744 apartments in May, 33% less than a year before. Correspondingly, in January-May, building permits for apartment blocks were granted for a total of 12,932 apartments, or 13% less 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 +8 per cent.

The three-month change in the housing construction volume index, which describes the value of on-going new construction, was 0% in May, and the change year-on-year was +12%.

According to the August confidence indicator survey of the Confederation of Finnish Industries, the balance figure for construction production for the past three months was +25 points in the second quarter of the year, while it was +2 points in the previous quarter and +34 points a year before. The balance figure for the three-month production expectation was +27 points, compared to +15 points in the previous quarter and +20 points a year before. The number of unsold residential apartments compared to normal decreased to -40 having been -37 in the previous quarter; a year ago, the balance figure was -23 points.

Rents and prices in the housing market

In the second quarter of 2018, the rents of non-subsidised apartments increased by 2.4% year-on-year. The change in housing prices in the second quarter according to the housing price index from Statistics

Finland was +0.8% year-on-year. The change in housing prices from the previous quarter calculated by Statistics Finland was +1.8 per cent, which we estimate to correspond to a change of approximately +1.0 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 second quarter based on the updated weightings of Statistics Finland and the rents of non-subsidised apartments was 13.0. The 44-year average for the ratio of square metre prices to annual rents in Finland is 14.4.

Near-term risks and uncertainties

Orava Residential REIT estimates that the key risks and uncertainties for the company in the near future will be related to changes in the value of apartments, sales of investment properties, interest rates and repair costs. In the company's opinion, the most significant of these is the changes in the value of apartments. The fluctuations on the value of apartments in the housing market affect the value of the company's apartments and, thereby, its financial result.

It may be difficult for the company to meet its apartment sales targets.

Changes in the housing market are beyond the company's control. If an external evaluation method was introduced for measuring the real estate properties, it is possible that the company would recognise a non-recurring profit or loss in 2018.

In terms of cash flow, the company's earnings are low in relation to the administrative and financial costs. An increase of interest rates could have a negative impact on the company's cash flow, or operational result (EPRA). An increase of interest may be a significant risk for the company's ability to make a profit. It may be difficult for the company to secure debt financing at competitive terms and conditions.

Major unexpected repairs and repair costs would have a negative impact on occupancy rate, rental income and profitability.

Future outlook (changed on 14 August 2018)

Orava Residential REIT estimates that its EPRA earnings for 2018 will be better than in year 2017. (Previously: Orava Residential REIT estimates that its EPRA earnings for 2018 will be approximately the same as in year 2017.)

Orava Residential REIT considers it possible that in the valuation of the real estate, the company may start using the values provided by external appraisers in 2018 instead of using the management company method. This change may generate a non-recurring result impact in 2018.

The Board of Directors is examining options for developing the company's strategy and structures. They may have an impact on the company's medium-term outlook.

The whole Half Year Report 1 January - 30 June 2018 and the current rules for real estate investments operations are available on the company's website at www.oravaasuntorahasto.fi, and they are included as an appendix.

Helsinki, 15 August 2018

Orava Residential REIT plc
Board of Directors

Additional information:

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Appendix:

Half Year Financial Report 1 January – 30 June 2018
Rules for real estate investment operations