

PRESS RELEASE 2024-04-23

Interim report January-March 2024

- Income amounted to SEK 940 million (1,172)
- Operating surplus amounted to SEK 578 million (789)
- Net financial income amounted to SEK –320 million (–387)
- Profit from property management amounted to SEK 215 million (356)
- Changes in value of properties amounted to SEK –484 million (–1,505)
- Changes in value of derivatives amounted to SEK 135 million (–231)
- Net letting amount to SEK 49 million
- Profit/loss for the period amounted to SEK –158 million (–911), corresponding to SEK –0.28 (–0.95) per ordinary share of class A and B
- The value of investment properties amounted to SEK 56,533 million (58,033)
- Net asset value (NAV) per ordinary share of class A and B amounted to SEK 17.46 (17.57)

SIGNIFICANT EVENTS DURING THE FIRST QUARTER

- During the quarter, 11 properties were divested with a combined underlying property value of SEK 1.7 billion.
- Unsecured green bonds of SEK 1,000 million were issued in January and SEK 100 million in February. The bonds were issued under a framework of SEK 2,000 million, with a term of 2.25 years, carrying a variable interest rate of 3-month Stibor plus 375 basis points and ultimately mature on 7 May 2026.
- During the quarter, three separate leases were signed for premises at the property 28&7 in New York.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

- Bond maturing on 16 April, 2024 with an outstanding amount of SEK 1,259 million has been redeemed as of due date.
- Bond maturing on 29 April, 2024 will be redeemed on its due date.
- Repurchase of SEK 333 million were made in bonds maturing in October 2024.
- Senior unsecured green bonds of SEK 500 million were issued in April. The bonds were issued under a framework of SEK 2,000 million, with a term of 2.75 years, carrying a variable interest rate of 3-month Stibor plus 375 basis points and maturity on 19 January 2027.
- An increase of SEK 150 million were made in bonds maturing in May 2026.

Comment by the CEO

Strong net lettings and continued focus on optimizing the business for new market conditions

During the first quarter we have continued on our set path, strengthening the balance sheet and optimizing the business to suit the current market conditions. Further transactions have been completed during the quarter, we have divested or signed agreements to divest a total of 30 properties. In addition, we have seen some positive signals on the finance and capital markets. Even if interest rates will remain higher than a few years back, the indication is that 2024 will hopefully be a less turbulent year than 2023. We are particularly pleased to report a positive net letting also in this first quarter of 2024, reaching SEK 49 million. This affirms the continued strength and stability of the core business in letting and property management, and that the rental market is generally seeing a good demand.

Adapting the business to new conditions

The beginning of 2024 was characterized by continued financial and geopolitical challenges. The 2020s as a whole have been an exceptional time for many real estate companies, beginning with the pandemic and its effects on the office market. This was later followed by an increase in interest rates and rising inflation which resulted in both pressure on property values and increased financial expenses for real estate companies.

We continue to see adjustments in property values, which for Corem has meant a total of 15 percent reduction since valuations were at their peak during spring 2022. The average yield requirement was, as per 31 March, 5.9 per cent, which can be compared with 4.9 per cent at the end of the first quarter of 2022. We are confident that we have made a thorough analysis of the portfolio so as to reflect the current conditions, and expect that property values will gradually rise again going forward, as interest rates hopefully come down somewhat.

At Corem, we were early in making a course correction, shifting from the previous strategy of growth and intensive project development, which has meant we have now significantly reduced the volume of assets and project commitments. We are of the opinion that it is advantageous to sharply reduce dividends for a while, in order to continue to improve the capital structure. These actions are all made with the purpose of adapting to the current market conditions and to strengthen the balance sheet, by minimizing the burden of debt. We hope to be able to continue these efforts during 2024, even if the pace of divestments will be lower. We are pleased to note that the transactions market has showed, and still shows, stability and activity. We feel confident about our ability to continue to complete attractive transactions needed to further strengthen our balance sheet.

During the first quarter, a total of 30 properties were handed over or under agreement to be sold, for an underlying property value of SEK 2.5 billion. Among others, a major divestment was made in Copenhagen, and we also agreed on a larger portfolio sale with hand-over in May that will mean that we completely exit Jönköping.

Stable core business in property management and letting

Net letting was strong during the first quarter and landed at SEK 49 million. Of these 49 million, around 22 stemmed from new builds and 27 from the regular business in the investment portfolio. Taken together with the strong net letting of the previous year, of SEK 83 million, it can be concluded that the rental market continues to exhibit good demand.

In total, we signed over 200 lease contracts during the quarter, for a combined value of around SEK 120 million. We are particularly pleased to have let out around 2,000 sq.m. on three floors at 28&7 in New York to The Visualize Group, Superstate, and Chenel Capital. In Kista, north of Stockholm, we have signed an agreement with OHB Sweden for around 4,800 sq.m. OHB Sweden is an existing tenant who are expanding their activities, which is also a very positive sign.

Net operating income has overall decreased due to the large divestments and the resulting new composition of the portfolio. Together with higher market rates, it has held back the profit from property management which amounted to SEK 215 million for the quarter.

The key figures for both operating margin and economic occupancy rate has decreased during the quarter. This as a result of sales but also as an expected effect of the negative net letting we had during 2022 and which is now reflected in our key figures. Considering the strong net letting we showed this quarter as well as during In 2023, we are confident that the opposite effect will gradually occur impact in the key figures.

Brighter days ahead on the bond market

We have had major bond maturities to deal with in 2023 and the beginning of 2024, and the transactions that have been completed have allowed us to gradually reduce our borrowings by repaying bank loans and redeeming bonds.

After the turn of the year, conditions seem to once again be improving on the bond market. During the first quarter, as well as in April 2024, we announced that we have successfully issued two new green bonds of totalling SEK 1.75 billion. These bonds run for 2.25 and 2.75 years, respectively, carrying variable interest of 3-month Stibor plus 375 basis points. There is, once more, considerable interest from institutional investors as well as private individuals, supporting the impression that the bond markets are beginning to function again. This is of course a good thing for us, even if interest rates remain at a higher level than they have been before. In April, two bonds totalling SEK 2.3 billion mature, and are redeemed in their entirety.

We will continue to invest considerable focus into our financing and on reducing our loan-to-value ratio in the long term. Interest-bearing liabilities amounted at the end of the first quarter to SEK 32.9 billion.

Project development

We have continued to restrict development activities during the first quarter, focusing on completing ongoing projects rather than starting new ones. We are certainly continuing to make tenant adaptations in connection with new lettings, but we will also be restrictive going forward with new construction projects, and will invest in major urban development projects for a time.

The focus going forward

Our entire focus for now is to trim and optimize the business and thus to improve the property portfolio occupancy rate and operating margin. We will continue to optimise the financial structure and are now better-prepared for rapid fluxes in the market, compared to where we were 12–18 months ago.

Times like these require considerable flexibility in the business, and the organization has had to adapt in several ways when the business shifted from projects intensity and growth to primarily be focused on the other core business, property management and letting. As a result of several larger divestments, the organization has also shrunk and been slimmed down. We are now roughly 50 fewer employees in the company, compared to year-end 2022. I would like to express a big thank you to all of our staff as well as our investors, tenants, and business partners for all of your efforts to build a stronger Corem.

Rutger Arnhult, CEO
Stockholm 23 April 2024

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This information is information that Corem Property Group AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. This information was submitted for publication through the agency of the contact persons set out above, at 08.00 CEST on 23 April 2024.

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