

PRESS RELEASE 2024-02-21

Interim report January - December 2023

- Income amounted to SEK 4,244 million (4,491)
- Operating surplus amounted to SEK 2,882 million (2,933)
- Net financial income amounted to SEK –1,464 million (–1,071)
- Profit from property management amounted to SEK 1,239 million (1,675)
- Changes in value of properties amounted to SEK –8,476 million (–2,934)
- Changes in value of derivatives amounted to SEK –1,000 million (1,375)
- Profit shares in associated companies amounted to SEK –1,076 million (–862)
- Net letting was positive and amounted to SEK 83 million for the year.
- Net profit for the period amounted to SEK –7,999 million (–1,938), corresponding to SEK –7.88 (–2.25) per ordinary share of class A and B
- The value of investment properties amounted to SEK 58,033 million (78,387)
- Net asset value (NAV) per ordinary share of class A and B amounted to SEK 17.57 (26.42)
- During the year, 132 properties were divested at an underlying property value of SEK 14.6 billion.
- The Board of Directors is proposing a dividend of SEK 0.10 (0.40) per ordinary share of class A and B, to be paid in four instalments of SEK 0.025 (0.10).
- The Board of Directors is proposing a dividend of 20.00 (20.00) per ordinary share of class D and preference share, to be paid in four instalments of SEK 5.00 (5.00).

SIGNIFICANT EVENTS DURING THE FOURTH QUARTER

- During the quarter, 35 properties were divested at a total underlying property value of SEK 5.4 billion.
- During the quarter, a bond loan of SEK 796 million was repaid. In addition, the company repurchased during the quarter bonds in other maturities totaling SEK 107 million.
- During the quarter, interest-bearing liabilities were reduced by SEK 5.4 billion.
- In December, Corem obtained an updated credit assessment from Scope Ratings which confirms the credit rating BBB- with negative outlook
- During the quarter, a lease agreement was signed in the property 28&7 in New York.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

- Corem issued unsecured green bonds of SEK 1 billion in January 2024 and SEK 0.1 billion in February 2024. The bonds were issued under a framework of SEK 2 billion, has a term of 2.25 years and runs with a variable interest rate of 3 months Stibor plus 375 basis points and final maturity 7 May 2026.
- After the end of the period, bonds to a value of SEK 849 million have been repurchased.
- Agreements for divestments, handed over after the end of the period, have been signed for six properties with underlying property value of approximately SEK 1.6 billion.
- In February, another lease agreement was signed in the property 28&7 in New York.

Comment by the CEO

A transactions-intensive year with a focus on the financial key figures

Through our proactive transaction efforts, we have been able to continue to strengthen the balance sheet through the final quarter of the year by gradually reducing debt. Meanwhile, we have a strong and stable core business in lettings and property management. This is shown, among other things, from the fact that we have signed a number of fine new leases, during the quarter as well as during the year. After the turn of the year, we have also been able to announce the issue of a bond of one billion SEK. That is positive. The work to optimise our financial structure continues. As a part of that, we see that it would be advantageous to sharply reduce dividends for a period, for the purpose of prioritising the improvement of financial key figures.

A transactions-intensive year

The fourth quarter, similarly to the rest of the year, was a very transactionintensive period for us. In 27 separate transactions, we divested an entire 132 properties during the year, with a total transaction volume of nearly SEK 15 billion. This enabled us to reduce interest-bearing liabilities by SEK 14 billion during the year, while we have also invested nearly SEK 2 billion in ongoing projects and tenant improvements in order to develop the portfolio in the long term.

During the fourth quarter, we completed two major deals whereby we divested 24 properties to Blackstone and two office properties in Copenhagen to AP Pension. Together, these two deals amounted to a combined property value of around SEK 5 billion. To strengthen the balance sheet in the long term, our strategy also includes reducing the future volume of development projects, which is why we are prioritising the completion of ongoing projects over starting new projects. In the fourth quarter, we chose to divest one of our planned projects in the US. The property on 118 10th Avenue in New York, with a building right of around 13,000 square metres, was sold to a local project developer that will carry on developing the project.

The transactions market is not as deep nor as strong as a few years ago, but exhibits a stability and a reasonably high activity in spite of high interest rates. We therefore feel secure in our continued ability to complete attractive transactions as a tool to strengthen our balance sheet.

Satisfied customers and value-generating management

Corem's core business is in letting, managing and developing our properties. Net letting was positive in 2023 and landed at SEK 83 million. During the fourth quarter, we signed a number of fine new leases in Sweden and in the US, such as with Tieto Evry in Örebro and with the investment company 1 Round Table in New York. In Copenhagen, we have signed a contract to let nearly 5,200 square metres across three floors to SOS International.

In total, we signed around 950 lease contracts during the year, for a combined value of nearly SEK 470 million. We are particularly pleased about contracts that are extended, as tenants that know us opt to extend their leases and develop within our portfolio. Thanks to continued good work by our locally based management organisation, we have satisfied customers and customers that stay with us.

Net operating income in a comparable portfolio increased by 10 per cent during the year, even though the net operating income in real numbers fell apart with divestments. Profit from property management is held back by increased financial expenses as a consequence of rising market interest rates, as well as by the reduction in volume of the portfolio, and amounted to SEK 1,239 million for the full year.

For many years, we have been able to present good results on the energy side, having gradually reduced energy consumption. In 2023, we ended up with an average energy consumption of just over 78 kWh per square metre. This is good, and a bit better than the target of 80 kWh per square metre.

As for project development, we have continued to complete our ongoing projects, contributing positively to net operating income. During the fourth quarter, the property Orgelpipan 4 on Klarabergsgatan in central Stockholm was completed, and was then fully let to the Swedish Riksbank and the restaurant AML. The property was sold in the first quarter of 2024.

Pressure on property values

As many other real estate companies, we have had to adjust the value of our properties to reflect current market conditions. In total, the adjustments amounted to 11 per cent during the year and to 14 per cent compared to when the values were at their highest, in the spring of 2022. These value changes are primarily driven by changing yield requirements, as a consequence of financing becoming more expensive. The average yield requirement increased in both 2022 and 2023, amounting at year-end to 5.8 per cent. The corresponding figure in Q1 2022 was 4.9 per cent.

Value changes in the property portfolio and higher interest rates go hand in hand and have twin effects for us. The effect of the interest rate rises over the last few years have driven up financial expenses, at the same time as it drives down property values. This says a lot about how the interest rate increases over the past few years have affected us and many other property companies.

If the interest rate develops in line with the Riksbank's forecasts for the coming years, this would conversely have a positive effect on us, both regarding the development of net financial income as well as the property values.

During the fourth quarter, exchange rate differences also affected the property value negatively by SEK 530 million, which is explained by changes in the dollar exchange rate and the Danish krone exchange rate.

Brighter days ahead on the bond market

Based on the transactions completed in 2023, we have been able to continue to strengthen the balance sheet by repaying bank debt and redeeming bonds. In 2023, we redeemed all bonds maturing during the year and have reduced interest-bearing liabilities from SEK 47.6 billion at the beginning of 2023 to SEK 33.6 billion at the end of the year.

After the turn of the year, conditions seem to be improving on the bond market. In January 2024, we announced that we have successfully issued new green bonds of SEK 1 billion. These were issued under a framework of SEK 2 billion with a term of 2.25 years and with a variable interest rate of 3-month Stibor plus 375 basis points. The issue was oversubscribed and could thus be expanded by SEK 100 million in the following week. The bond attracted considerable interest from institutional investors as well as private individuals, which could be interpreted as a sign that capital markets are starting to work again. This is of course a good thing for us, even if interest rates remain at a high level.

We will continue to invest considerable focus into our financing and on reducing our loan-to-value ratio in the long term.

The work going forward

The Board proposes that the AGM adopts a limited dividend for the 2023 financial year of SEK 0.10 per ordinary share of class A and B, and SEK 20.00 per ordinary share of class D and per preference share. The effects of the current interest rate situation leaves us with less capital in the company than we are used to. By retaining a greater proportion of the funds in the company, we can improve profits as well as cash flow while continuing the work with improving the effectiveness of our capital structure. In addition, we also want to continue to focus on profitable investments together with our current and future tenants, and thereby develop the portfolio further. Considering these circumstances, the Board is of the opinion that this proposed dividend represents the best course of action for the company and thereby also for its shareholders.

Our entire focus, for now and going forward, is to trim and optimize the business and thus to improve the property portfolio occupancy rate and operating margin.

We will be restrictive with new construction projects and instead focus on on-going tenant customisations.

We will continue to optimise our financial structure to suit the current market conditions. The rapid changes we see on the financial state of play have been disadvantageous, and we shall be better prepared for this type of rapid changes in the future.

Together with all of our staff, we continue our efforts to strengthen our profitability and optimise the business according to current market conditions. We have a stable property portfolio with properties that are attractive to our tenants, now and in the future.

Rutger Arnhult, CEO
Stockholm 21 February 2024

Corem Property Group AB (publ)

FOR FURTHER INFORMATION, PLEASE CONTACT

Rutger Arnhult, CEO, +46 70 458 24 70, rutger.arnhult@corem.se
Eva Landén, Deputy CEO, +46 10 482 76 50, eva.landen@corem.se

Corem Property Group AB (publ)
Address: P.O. Box 56085, SE-102 17 Stockholm
Visitors: Riddargatan 13 C
Reg.no: 556463-9440
www.corem.se

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