

# HALF-YEAR REPORT JAN-JUN 2022

**Presentation material 15th July 2022 | Antti Aarnio, President and CEO**

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# SATO IN BRIEF

- Number of SATO homes **24,900**
- Number of personnel **342**
- Fair value of investment properties EUR **5.0** billion
- Operating area
  - **Helsinki MA**, Tampere, Turku
  - St. Petersburg in Russia

# SATO'S STRATEGY

MEGATRENDS: POPULATION SHIFT, CLIMATE CHANGE, DIGITALISATION, SUSTAINABILITY



**VALUES: HUMAN TO HUMAN | BE BOLD, AIM HIGH | JOY OF SUCCEEDING TOGETHER**

# OPERATING ENVIRONMENT

Over the reporting period, SATO's operating environment was affected by the war in Ukraine, high inflation, and the continued high level of rental housing supply, particularly in the Helsinki Metropolitan Area.

The first months of the year saw rapid economic growth as COVID-19 restrictions were lifted, resulting in growing service consumption and, consequently, improved employment rate. Russia's attack on Ukraine in late February made the economic outlook increasingly uncertain. The biggest impacts are related to the surge in prices of energy and materials, and challenges in supply chains, which could already be seen in late 2021. Cost increases remained at a high level throughout the reporting period, and central banks had to make interest rate hikes to curb the increases in costs. Several forecasting institutions have lowered their growth projections for the current and coming year. The uncertainty has resulted in a major decline in consumer confidence. According to the consumer confidence indicator published by Statistics Finland on 27 June 2022, consumers' expectations concerning their own finances and the Finnish economy were very pessimistic in June.

Inflation remained high in early 2022. According to preliminary Eurostat data, the rate of inflation in June was expected to be 8.6% in the euro area and 8.1% in Finland. The main component pushing up prices was the surge in energy and food prices. The accelerating inflation rate has raised overall interest rate levels, and central banks have tightened their monetary policy to curb price increases. The European Central Bank (ECB) intends to raise the key ECB interest rates in July and again in September. Inflation is, however, anticipated to slow during 2023.

There are signs of slowing in the record-high rate of construction that has been seen for a long period time. The May economic forecast of the Confederation of Finnish Construction Industries (RT) estimates that rental housing starts will decline by around a fifth to around 39,000 homes this year, with the figure for next year projected to settle at the long-term level of housing production demand at 35,000 homes.

Despite the economic uncertainty, there is demand for rental homes and the urbanisation trend continues. Dense urban housing with good access to public transport is becoming increasingly popular in Finland. The Helsinki Metropolitan Area (HMA), Tampere and Turku continue to enjoy strong growth, while at the same time Statistics Finland forecasts a downturn in the nationwide population trend in 2031. The HMA is projected to grow by more than 200,000 new residents by 2040. Almost 80% of HMA residents already live in households with one to two members, and the proportion of small households continues to grow. The proportion of immigrants is projected to increase in the HMA from the current 17% to 25% by 2030. The ageing population is moving to growth centres providing access to services and expects more and more housing-related services.

The demographic change and the price development of owner-occupied homes create a stable foundation for rental housing demand, especially in the HMA, Tampere and Turku. Outside growth centres, the real prices of homes are declining, which makes acquiring an owner-occupied home in a growth centre even more challenging for people coming from those areas.

# HALF-YEAR REPORT JAN-JUN 2022

**Demand for rental homes growing**

# HIGHLIGHTS

## Antti Aarnio

- During the period under review, SATO's occupancy rate improved and was 94.8% (94.6). Demand for rental homes has picked up after the COVID-19 pandemic, and the higher occupancy rate is mainly attributable to growth in service consumption and the consequent improvement in service-sector employment rate. Economic uncertainty and higher consumer prices and interest rates are also in part reflected in the rising demand for rental homes.
- During the period under review, we at SATO focused on developing our customer service and rental operations to align them even better with customer needs.
- SATO sold 2,009 rental apartments mainly in the Lahti, Jyväskylä and Oulu regions to Heimstaden. The divestment implements the SATO strategy to focus housing investments on the Helsinki Metropolitan area and its commuter area along the main railway line as well as on Tampere and Turku and their surrounding municipalities.
- May saw the commencement of the construction of a rental homes property in Rykmentinpuisto, Tuusula. The project is SATO's first new housing investment in Tuusula in more than 15 years.
- May also saw the completion of a timber apartment building in Lupajantie in the Mellunmäki district of Helsinki. The two-storey timber-structure low-rise apartment buildings feature 112 non-subsidised rental homes. The design solutions employed pay attention to energy efficiency as well as construction solutions and materials that will last for decades.
- I would like to thank SATO employees for their great work to develop customer satisfaction and the housing comfort of our residents.

# REVIEW PERIOD JAN-JUN 2022 (JAN-JUN 2021)

- The economic occupancy rate in Finland was 94.8% (94.6).
- Net sales totalled EUR 147.2 million (148.2).
- Net rental income was EUR 98.4 million (100.0).
- Profit before taxes was EUR 144.5 million (171.2).
- The change in the fair value of investment properties included in the result was EUR 87.1 million (112.0).
- Housing investments amounted to EUR 68.5 million (59.6).
- Invested capital at the end of the review period was EUR 4,613.5 million (4,430.3).
- Return on invested capital was 7.3% (8.7).
- Equity was EUR 2,462.2 million (2,274.5), or EUR 43.49 (40.17) per share.
- Earnings per share were EUR 2.04 (2.42).
- A total of 191 rental apartments (41) were acquired or completed.
- A total of 1,001 new rental apartments (1,035), 0 owner-occupied apartments (71) and 52 FlexHomes (52) are under construction.
- SATO sold 2,009 rental apartments mainly in the Lahti, Jyväskylä and Oulu regions.

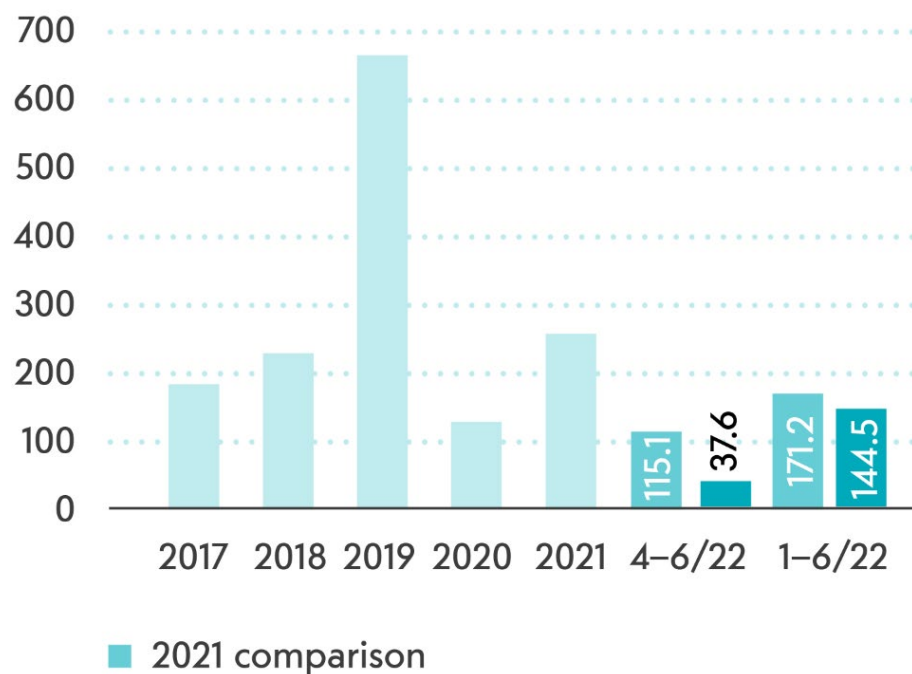
# REVIEW PERIOD APR-JUN 2022 (APR-JUN 2021)

- The economic occupancy rate in Finland was 95.0% (94.4).
- Net sales totalled EUR 72.5 million (74.2).
- Net rental income was EUR 54.0 million (55.1).
- Profit before taxes was EUR 37.6 million (115.1).
- The change in the fair value of investment properties included in the result was EUR 4.5 million (80.4).
- Housing investments amounted to EUR 44.7 million (42.7).
- Earnings per share were EUR 0.54 (1.63).
- A total of 191 rental apartments (41) were acquired or completed.
- A total of 1,001 new rental apartments (1,035), 0 owner-occupied apartments (71) and 52 FlexHomes (52) are under construction.
- SATO sold 2,009 rental apartments mainly in the Lahti, Jyväskylä and Oulu regions.

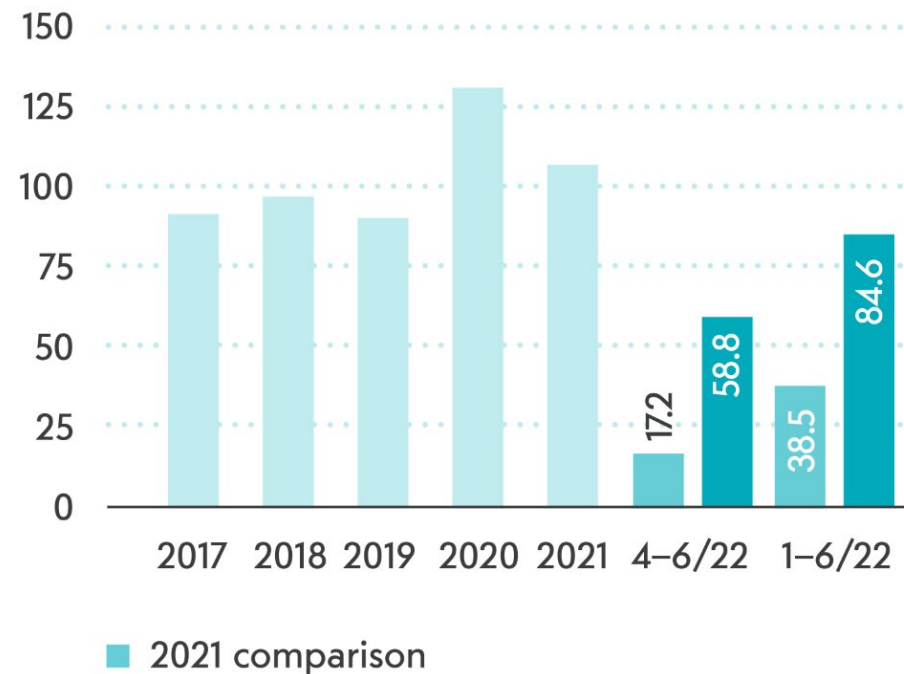
# PROFIT AND CASH EARNINGS

## Stable cash earnings

PROFIT BEFORE TAXES, MEUR



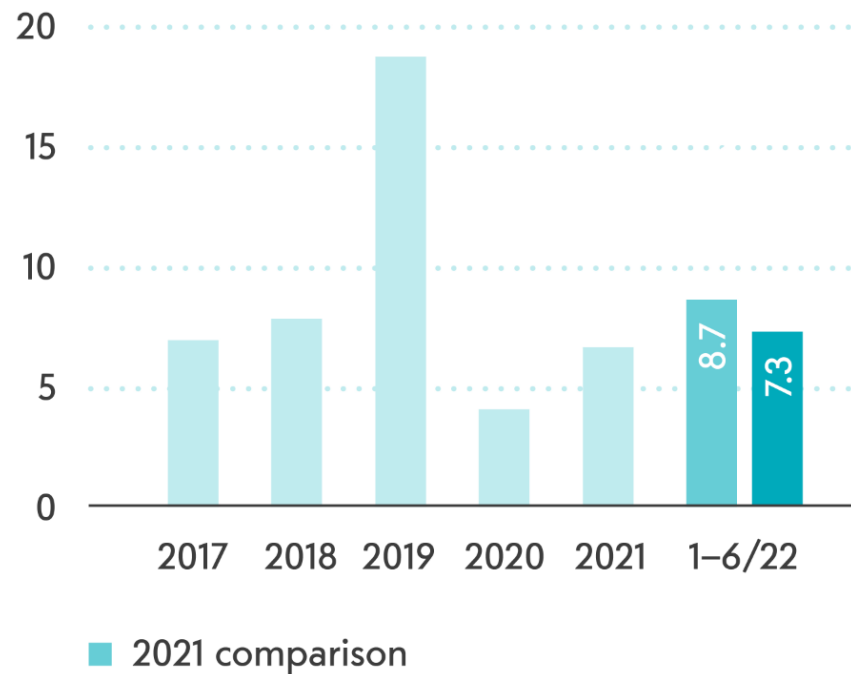
CASH EARNINGS (CE), MEUR



# RETURN ON INVESTMENT

The key indicator of housing business

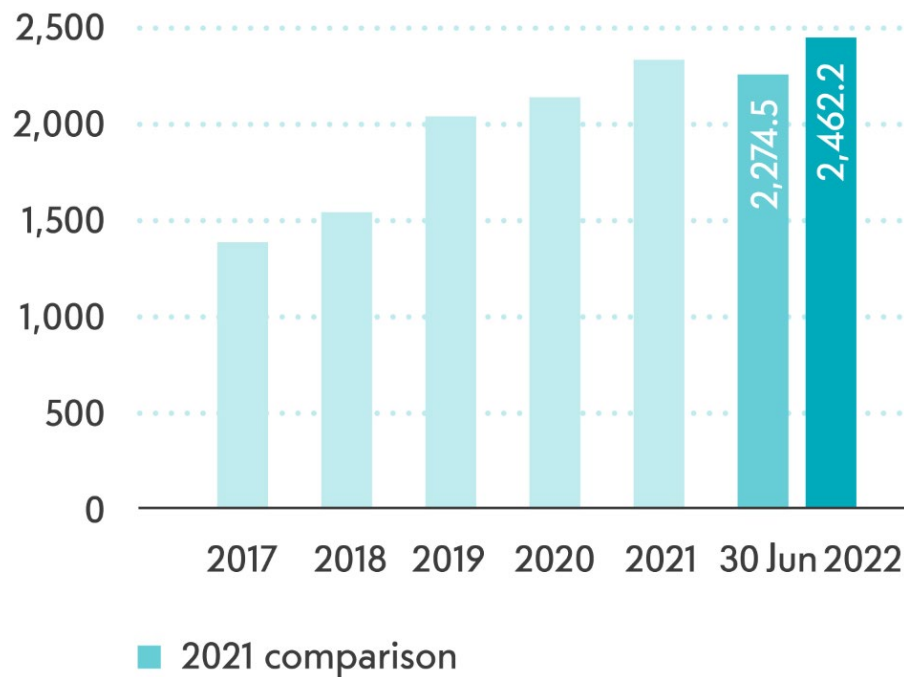
RETURN ON INVESTED CAPITAL, %



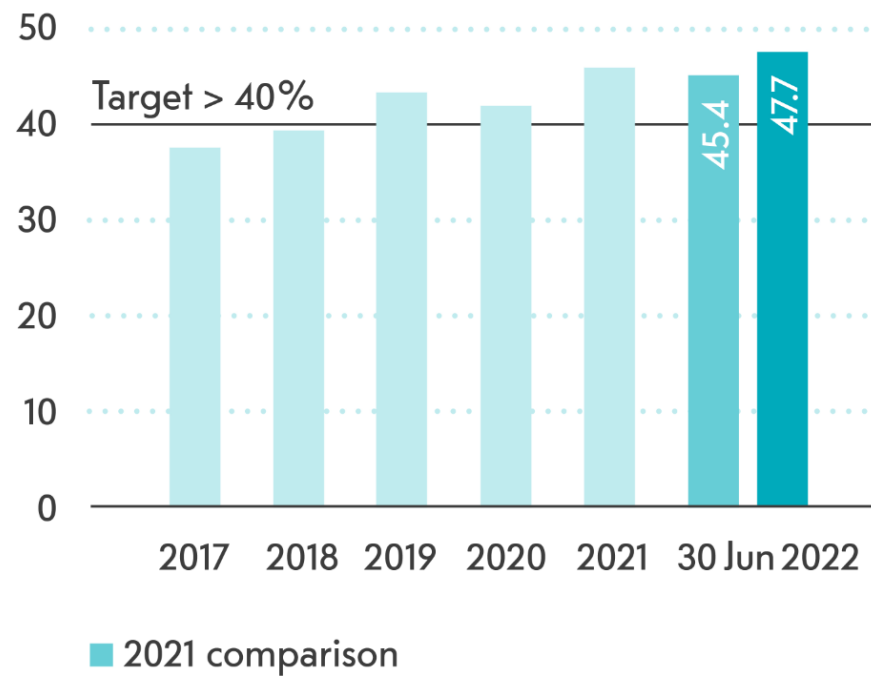
# EQUITY

## Strong equity ratio enables growth

SHAREHOLDERS' EQUITY, MEUR



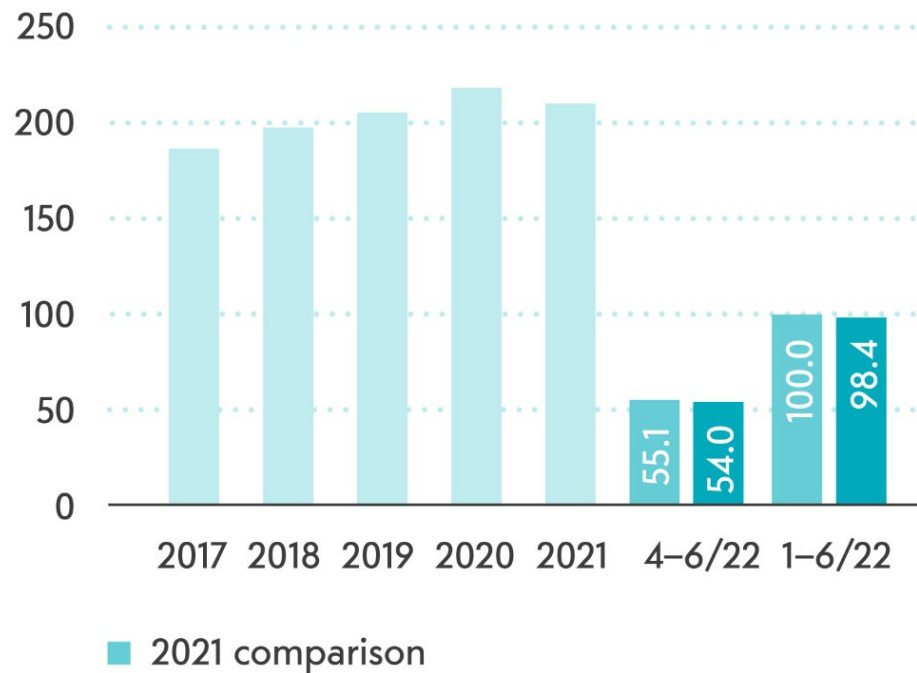
EQUITY RATIO, %



# RENTAL INCOME

## Demand for rental homes growing

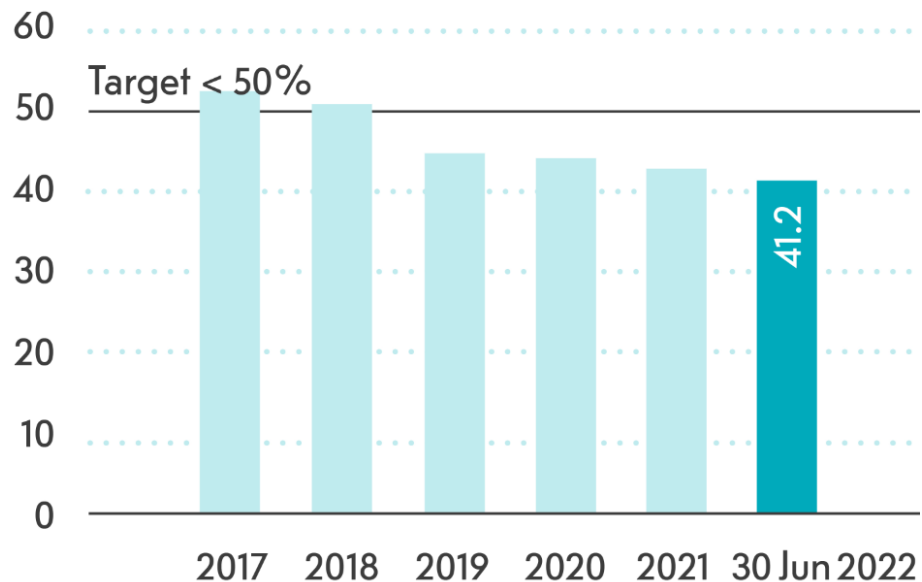
NET RENTAL INCOME, MEUR



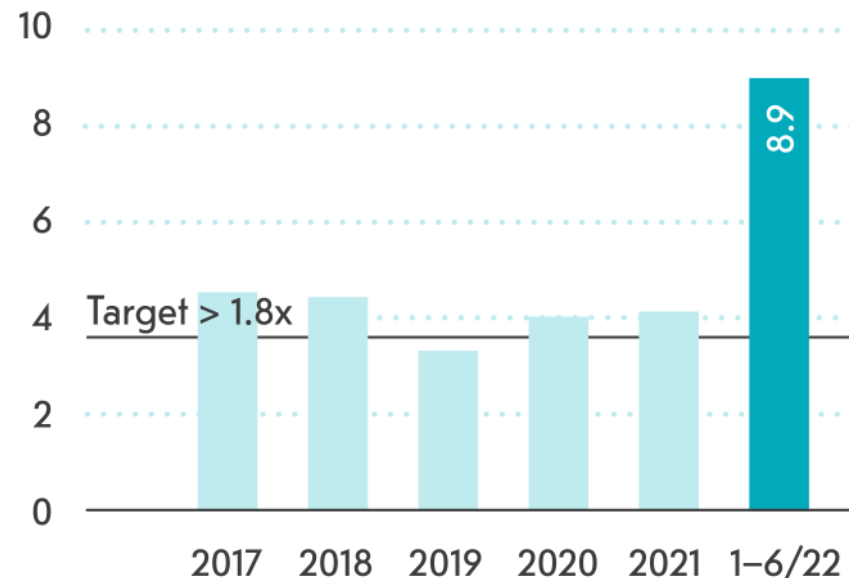
# FINANCING

## Strong financial position

SOLVENCY RATIO, %



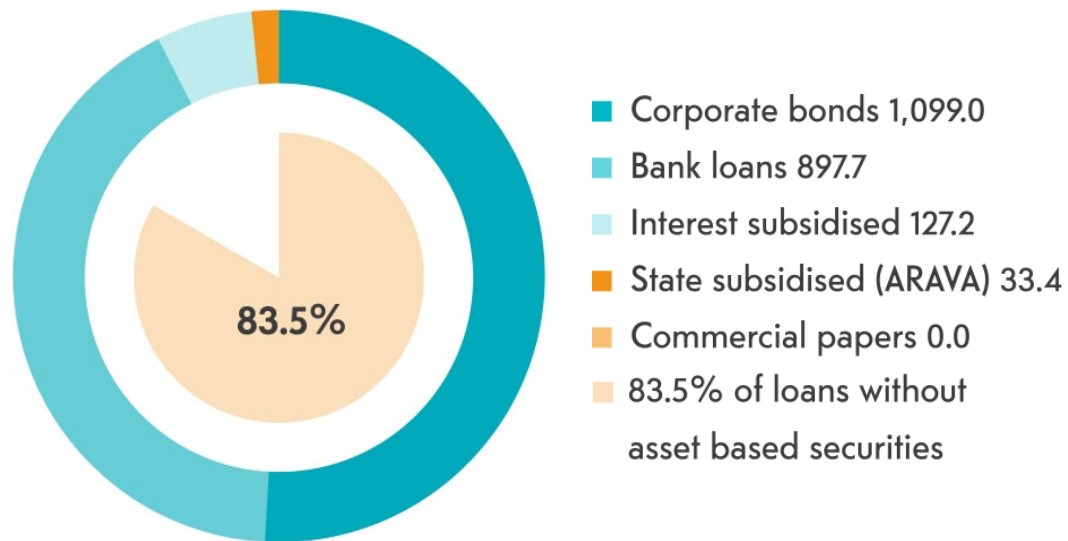
INTEREST COVERAGE RATIO



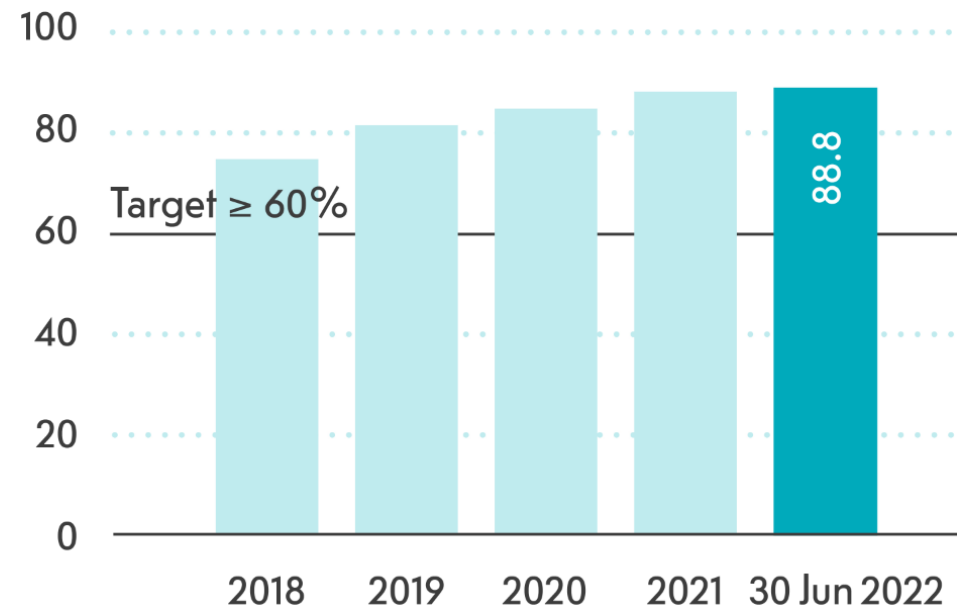
# FINANCING

## Interest bearing debt MEUR 2,157.3

DEBT PORTFOLIO, nominal values 30th June 2022,  
TOTAL MEUR 2,157.3



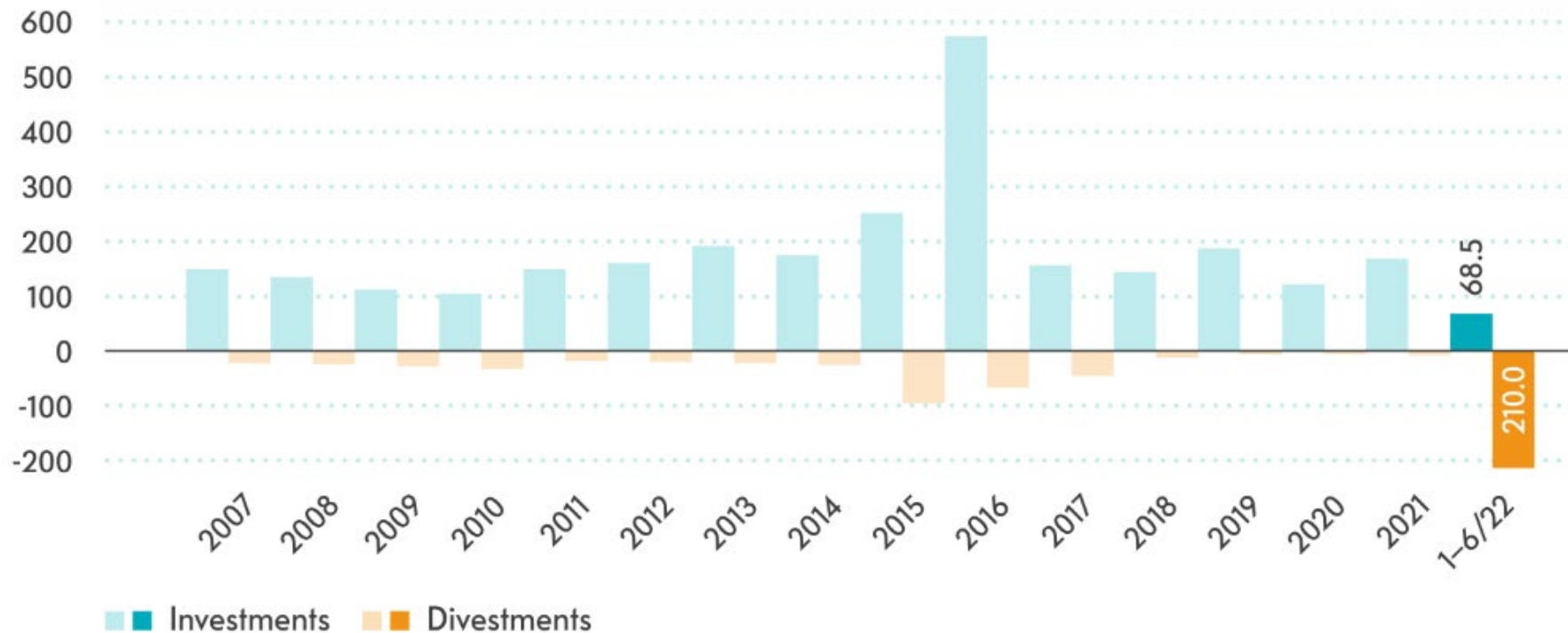
UNENCUMBERED ASSETS, %



# INVESTMENTS IN FINLAND

78.4 % of the investments in Helsinki MA

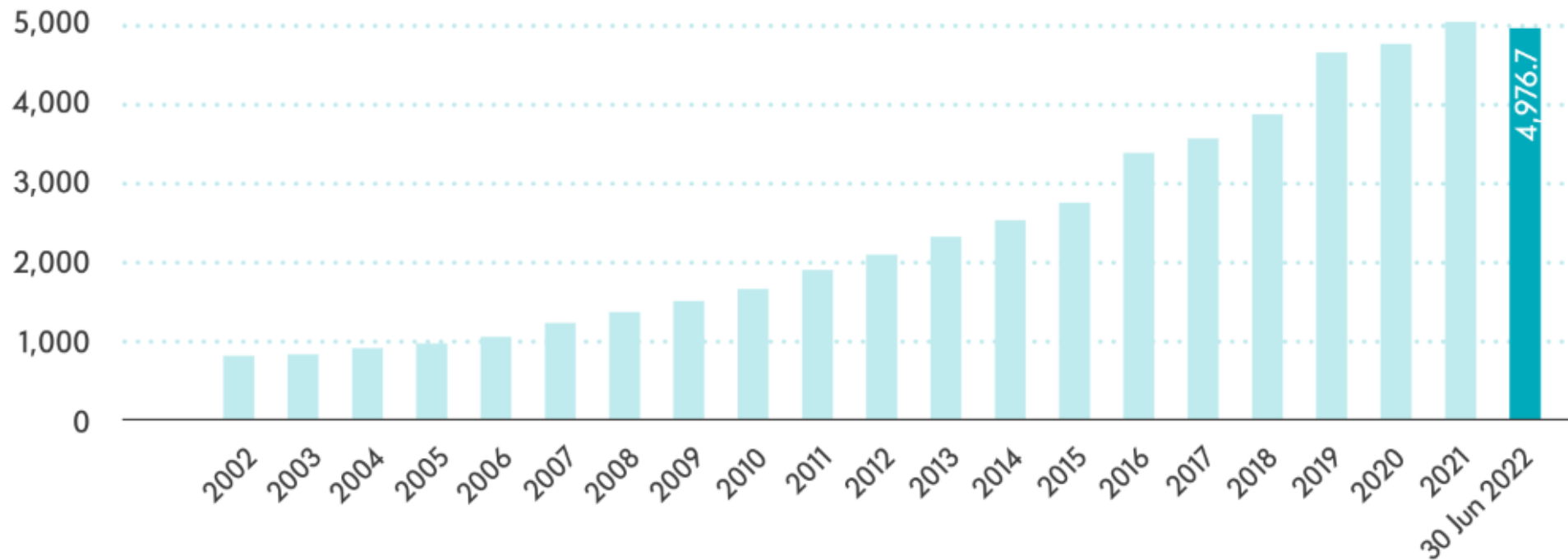
HOUSING INVESTMENTS AND DIVESTMENTS, MEUR



# INVESTMENT PROPERTIES

The development of the value is a key factor for SATO

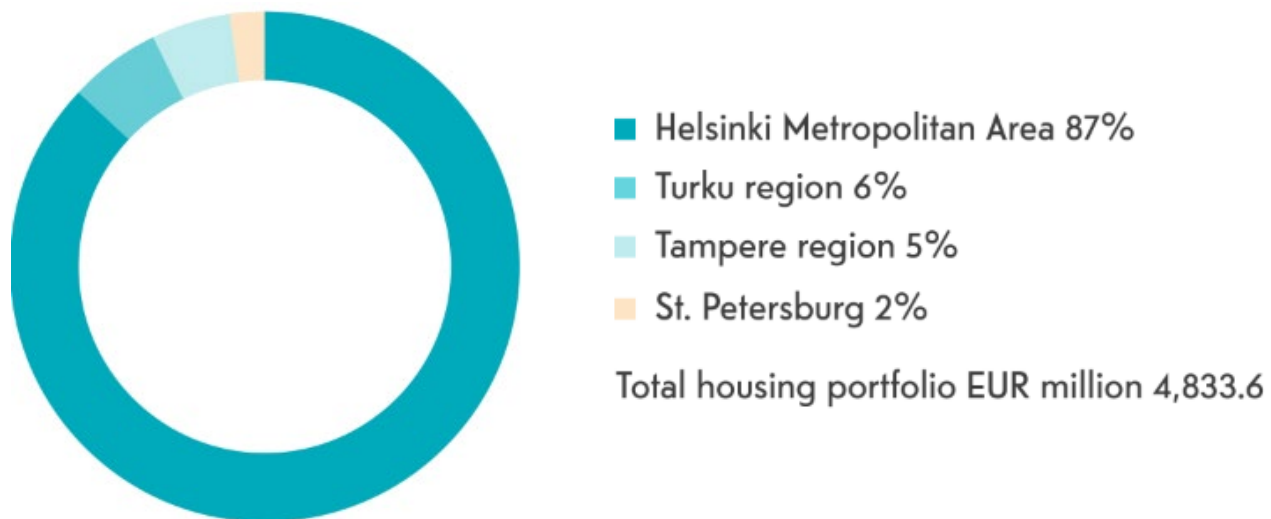
TREND IN THE INVESTMENT PROPERTY PORTFOLIO, MEUR



# HOUSING ASSETS

## Homes in areas with rising demand

### REGIONAL DISTRIBUTION OF THE HOUSING PORTFOLIO ON 30 JUNE 2022



# MAIN SHAREHOLDERS

Balder Finska Otas AB / Fastighets AB Balder	56.1 %
Stichting Depository APG Strategic Real Estate Pool	22.6 %
Elo Mutual Pension Insurance Company	12.7 %
The State Pension Fund	4.9 %
Valkila Erkka	0.7 %
Research Foundation of the Pulmonary Diseases	0.4 %
SATO Oyj	0.3 %
Entelä Tuula	0.3 %
Heinonen Erkki	0.3 %
Tradeka Invest Ltd	0.2 %
Others (117 shareholders)	1.5 %

On 30 June 2022, SATO had 56,783,067 shares and 127 shareholders registered in the book-entry system. The share turnover rate was 0.72% for the period from 1 January to 30 June 2022.

# OUTLOOK

In the operating environment, SATO's business activities are mainly affected by consumer confidence, development of purchasing power, rent and price development for apartments, competitive situation, and interest rate level.

The first months of the year saw rapid economic growth as COVID-19 restrictions were lifted, resulting in growing service consumption and, consequently, improved employment rate. Russia's attack on Ukraine in late February made the economic outlook increasingly uncertain. The biggest impacts are related to the surge in the prices of energy and materials and to challenges in supply chains, which could already be seen in late 2021. Cost increases remained at a high level throughout the reporting period. Higher construction costs may postpone some of SATO's future investment decisions.

There are slight signs of slowing in the record-high rate of construction that has been seen for a long period time. The May economic forecast of the Confederation of Finnish Construction Industries (RT) estimates that rental housing starts will decline by around a fifth to around 39,000 homes this year, with the figure for next year projected to settle at the long-term level of housing production demand at 35,000 homes. This will be reflected in the supply of rental homes over the long term.

Several forecasting institutions have lowered their growth projections for the current and coming year. The uncertainty has resulted in a major decline in consumer confidence. According to the consumer confidence indicator published by Statistics Finland on 27 June 2022, consumers' expectations concerning their own finances and the Finnish economy were very pessimistic in April.

The accelerating inflation rate has raised overall interest rate levels, and central banks have tightened their monetary policy to curb price increases. The European Central Bank (ECB) intends to raise the key ECB interest rates in July and again in September. Inflation is, however, anticipated to slow during 2023. High inflation increases, in addition to higher property maintenance expenses, the interest rate level and, and consequently, SATO's finance costs. The ample supply of rental homes prevents the transfer of higher costs caused by inflation fully to rents.

However, with COVID-19 restrictions lifted and service-sector employment improving, demand for centrally located homes has started to grow, which is reflected in the improved occupancy rate. The economic uncertainty, pressure for interest rate hikes and increases in consumer prices have also been in part reflected in increased demand for rental homes.

The continued high level of housing supply particularly in the Helsinki Metropolitan Area has maintained intense competition for good tenants and was reflected over the period under review in SATO's business as a slight decrease in average rents year on year. With greater choice available for those looking for a home, the role of a successful customer experience has become even more important. SATO is investing strongly in increasing its presence close to customers and in digital services.



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