



# Interim report Jan-Sep 2023

Presentation material 27<sup>th</sup> October 2023 | Antti Aarnio, President and CEO

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# SATO IN BRIEF

With some  
**25,300** homes  
we are  
one of Finland's  
leading housing  
providers.

We have nearly  
**45,000** residents in  
Helsinki Metropolitan Area,  
Tampere, and Turku.

We have over  
**300** housing specialists  
working in SATO.

We invest in rental  
apartments located near  
good public transport  
and various services.

We grow profitably.  
In Q3/23 Helsinki MA  
represented **89%** of our  
investments.

Our net sales in  
Q3/23 were  
**214.9** MEUR.

The fair value of  
our investment  
properties is  
€**5** billion.

# OUR STRATEGY

**#1**

**CUSTOMER  
EXPERIENCE**

Close to  
customer

**#2**

**SUSTAINABILITY**

Homes to stand  
the test of time

**#3**

**PERSONNEL**

Forerunners  
now and tomorrow

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

# OPERATING ENVIRONMENT

Over the reporting period, a strong rate of new housing construction continued, particularly in the Helsinki Metropolitan Area. The level of inflation still remained high, despite having declined in Finland since the winter months mainly owing to the decrease in energy prices. Core inflation has, however, persisted at a high level and clearly above the two per cent target of the central banks. The European Central Bank still continued to hike the rates in September, but the market expects the interest rate peak to be reached during late 2023, and inflation is projected to slow to below two per cent in late 2024.

The high inflation has weakened consumers' purchasing power and kept consumer confidence at a low level. According to the Bank of Finland's September 2023 interim forecast, Finland's GDP will contract by 0.2% in 2023. Recovery from the recession is projected to be slow, with the economy forecast to grow only by 0.2% in 2024. The improved employment rate is projected to dip slightly in 2024. As economic growth strengthens in 2025, the employment rate is also projected to take another upturn.

The economic uncertainty, persistently high interest rate level and increases in living costs have a strong impact on the number of new housing construction projects commenced. The Confederation of Finnish Construction Industries RT forecast of 26 September estimates that the volume of new housing construction projects commenced this year will only be around 16,000, whereas the figure in 2022 was still more than 37,000. Projects started in 2022 will still maintain the supply of new homes at a high level throughout 2023, especially in the Helsinki Metropolitan Area. Rental housing providers are competing for good tenants, which results in rent increases remaining moderate. Inflation increases maintenance and finance costs and, going forward, these will be reflected in higher rent costs while the supply of rental housing decreases.

Migration to large growth centres has continued and the Helsinki region's migration gain in 2022 was 17,420 people. This is reflected in the demand for rental homes in growth centres. The economic uncertainty and the climbing home loan interest rates coupled with increasing energy and other costs may also contribute towards growth in demand for rental housing. Some of those looking for a home to buy are now also considering a rental home as a good option instead home ownership.

The urbanisation trend continues and dense urban housing is becoming increasingly popular. There is demand for rental homes in growth centres close to good public transport connections and services. The Helsinki Metropolitan Area (HMA), Tampere and Turku are large urban regions continuing 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 number 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 create a stable foundation for rental housing demand, especially in the HMA, Tampere and Turku.



# INTERIM REPORT JAN-SEP 2023

**Rental housing market remains challenging**

# HIGHLIGHTS

## Antti Aarnio

- During the period under review, SATO's occupancy rate was 94.7% (95.6). The decline is due to SATO's high rate of new housing construction and the intense competition prevailing in the rental housing market. On the other hand, the economic uncertainty and higher consumer prices and interest rates resulting from the war in Ukraine are also in part reflected in the rising demand for rental homes.
- There has been a significant decline in the volume of new housing construction projects commenced in the market, but there will still be a large number of new homes completed this year, maintaining intense competition for tenants. Due to the competitive situation, it has not been possible to transfer the higher maintenance and interest costs in full to apartment rents. The rising demand for housing, high living costs and significant decline in the volume of new housing construction may push rents up going forward.
- As the level of inflation and interest rates is projected to remain high, there may be upward pressure on the return requirement for real property. This may have a negative effect on the fair value of investment assets.
- The uncertainty in the financial markets and the higher interest rates are reflected in increased finance costs. Going forward, SATO's large volume of unencumbered property assets enables the use of secured finance that is less expensive than unsecured finance. SATO is currently discussing with finance providers on secured loans to cover finance needs in 2024. The aim is to implement these arrangements before the turn of the year.

- During the period under review from 1 July to 30 September 2023, SATO completed 161 new rental homes in Raudikkokuja, Hakunila, Vantaa and, following full renovation, 191 rental homes in Mechelininkatu, Etu-Töölö, Helsinki, and in Raivosuonmäki, Martinlaakso, Vantaa.
- The industry-wide volume of new construction projects commenced is at a historically low level, and the supply of new rental homes will decrease over the years ahead. This year will see the completion of a total of 978 new SATO rental homes. In addition, the full renovation of a total of 545 SATO homes will be completed this year.
- We will still not be launching new construction projects and have adapted our operations to reflect the general market situation.
- Launched in the spring, the installation of solar power systems in 15 residential buildings around the Helsinki Metropolitan Area, Tampere and Turku has been completed. We will continue our work to reach the SATO target of being carbon neutral in terms of in-use energy consumption by 2030.
- SATO is strongly invested in increasing its presence close to customers and in digital services. We continued to build a consistent and seamless around-the-clock customer service experience.
- We participated for the ninth time in the Global Real Estate Sustainability Benchmark (GRESB) assessment and reached our aim of scoring three out of five stars.
- 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-SEP/2023 (JAN-SEP/2022)

- The economic occupancy rate in Finland was 94.9% (95.1).
- Net sales totalled EUR 214.9 million (219.8).
- Net rental income was EUR 148.5 million (152.4).
- Profit before taxes was EUR -94.2 million (182.9).
- The unrealised change in the fair value of investment properties included in the result was EUR -140.0 million (43.2).
- Housing investments amounted to EUR 122.5 million (122.1).
- Invested capital at the end of the review period was EUR 4,552.2 million (4,650.7).
- Return on invested capital was -1.2 % (6.3).
- Equity was EUR 2,406.2 million (2,507.4), or EUR 42.50 (44.29) per share.
- Earnings per share were EUR -1.42 (2.58).
- A total of 861 apartments (192) were acquired or completed, of which 809 (192) were rental homes and 52 (0) were FlexHomes. Renovation of 388 rental homes (250) was completed.
- A total of 518 rental homes (1,387), 0 FlexHomes (52) and 213 renovation projects (500) are under construction.

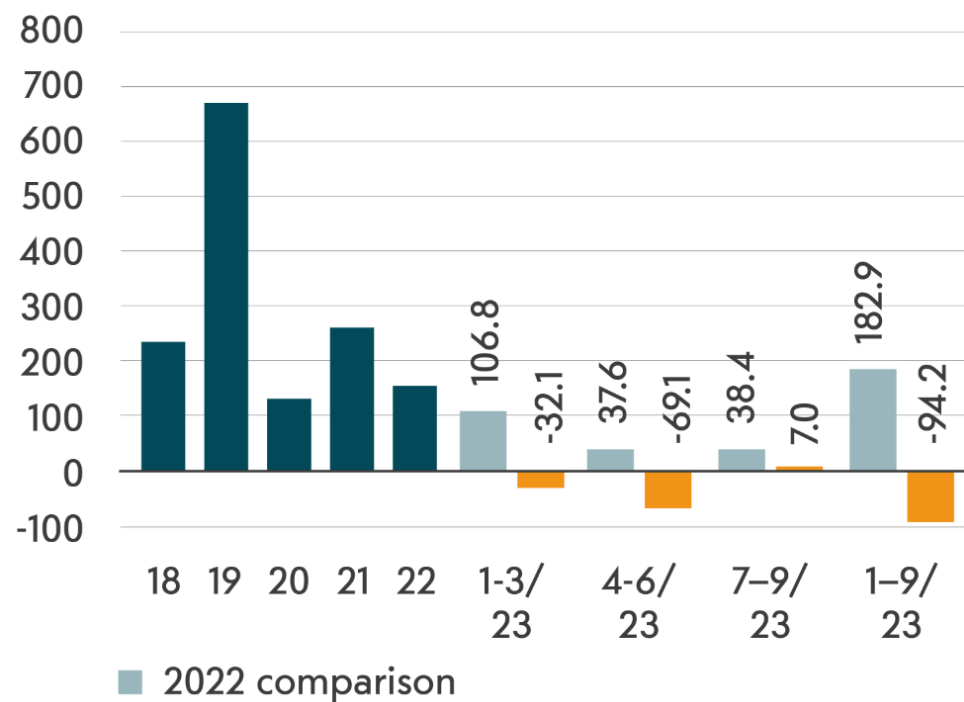


# REVIEW PERIOD APR-SEP/2023 (APR-SEP/2022)

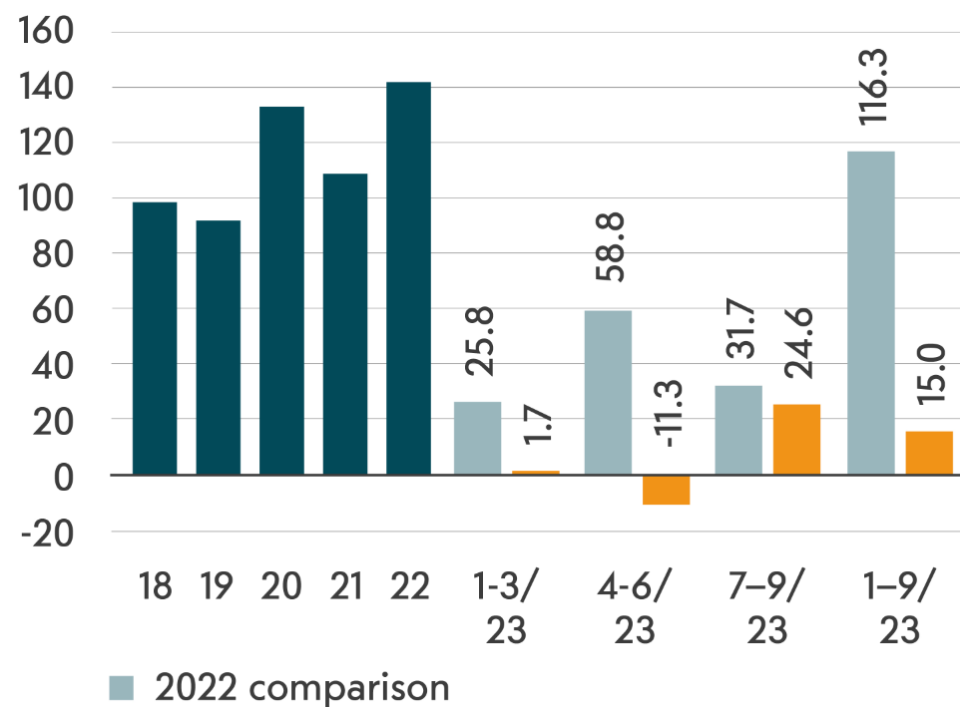
- The economic occupancy rate in Finland was 94.7% (95.6).
- Net sales totalled EUR 72.5 million (72.6).
- Net rental income was EUR 55.1 million (54.0).
- Profit before taxes was EUR 7.0 million (38.4).
- The unrealised change in the fair value of investment properties included in the result was EUR -18.0 million (2.9).
- Housing investments amounted to EUR 29.8 million (53.6).
- Earnings per share were EUR 0.10 (0.54).
- A total of 161 rental homes (1) and 191 renovation projects (18) were acquired or completed. During the period under review, 161 new rental homes were completed in Raudikkokuja, Hakunila, Vantaa and, following full renovation, 108 homes were completed in Mechelininkatu, Etu-Töölö, Helsinki, and 83 rental homes were completed in Raivosuonmäki, Martinlaakso, Vantaa.

# PROFIT AND CASH EARNINGS

PROFIT BEFORE TAXES, MEUR

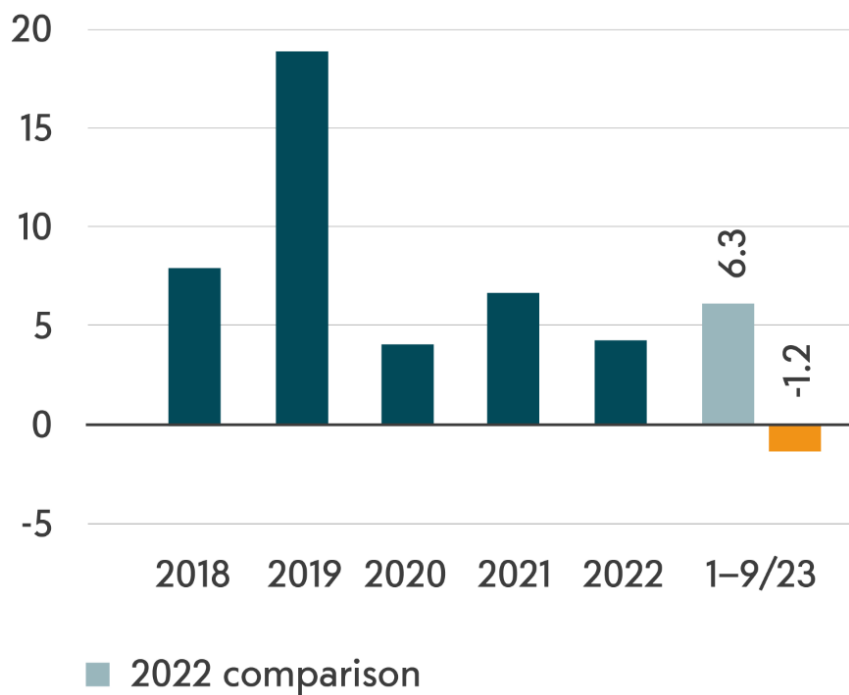


CASH EARNINGS (CE), MEUR



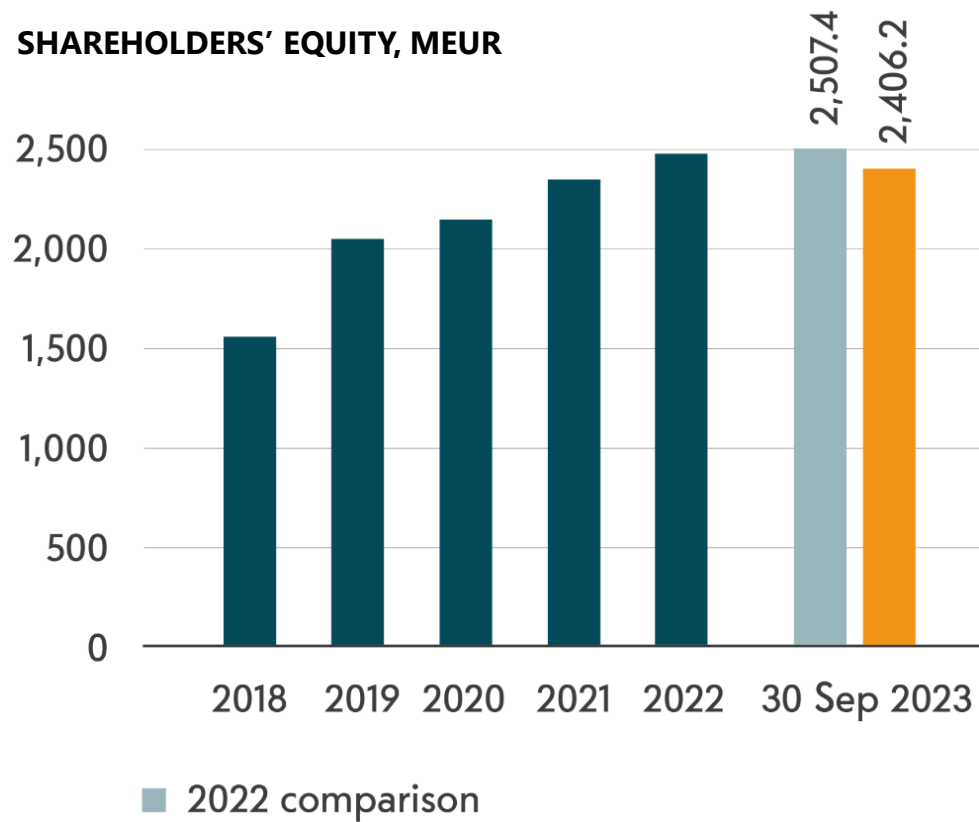
# RETURN ON INVESTMENT

RETURN ON INVESTED CAPITAL, %



# EQUITY

SHAREHOLDERS' EQUITY, MEUR



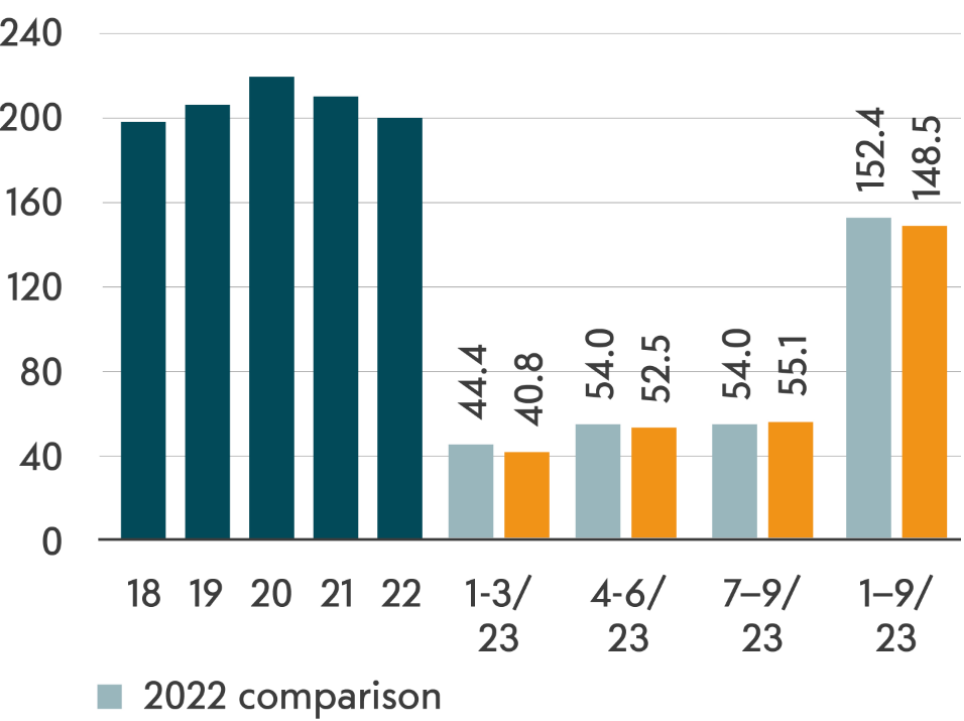
EQUITY RATIO, %





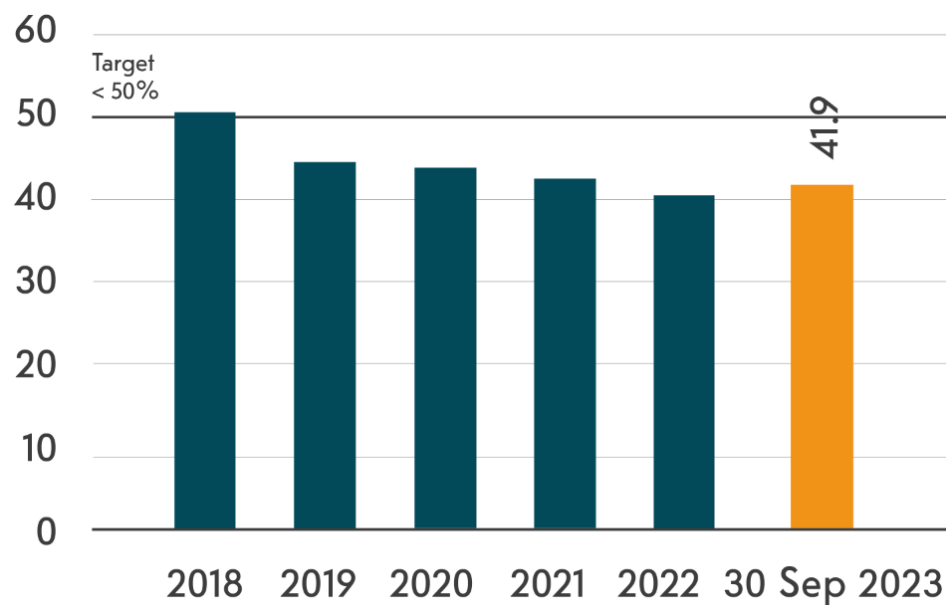
# RENTAL INCOME

NET RENTAL INCOME, MEUR

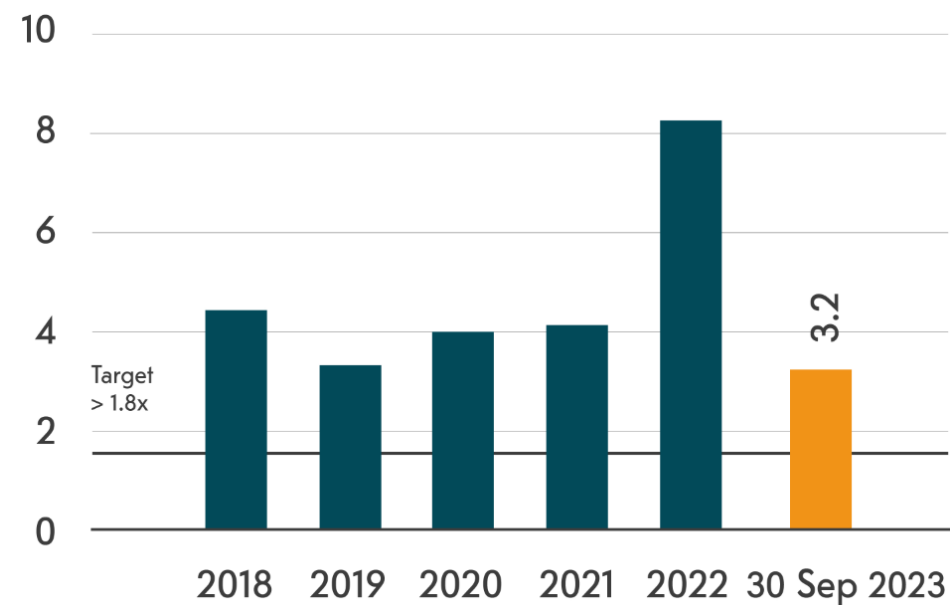


# FINANCING

**SOLVENCY RATIO, %**

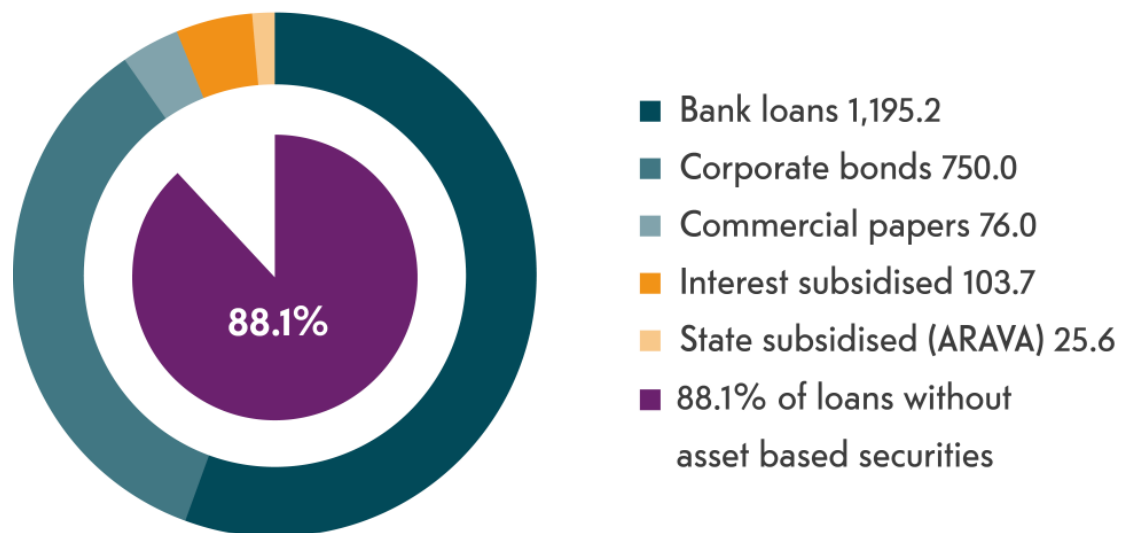


**INTEREST COVERAGE RATIO**

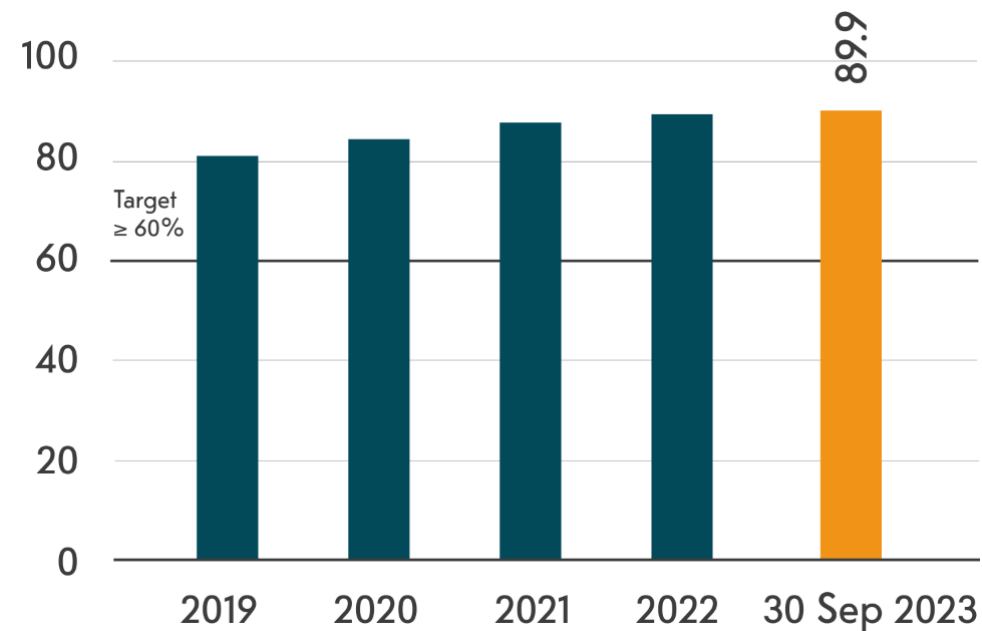


# FINANCING

**DEBT PORTFOLIO, nominal values 30 September 2023,  
TOTAL MEUR 2,150.5**



**UNENCUMBERED ASSETS, %**



# INVESTMENTS

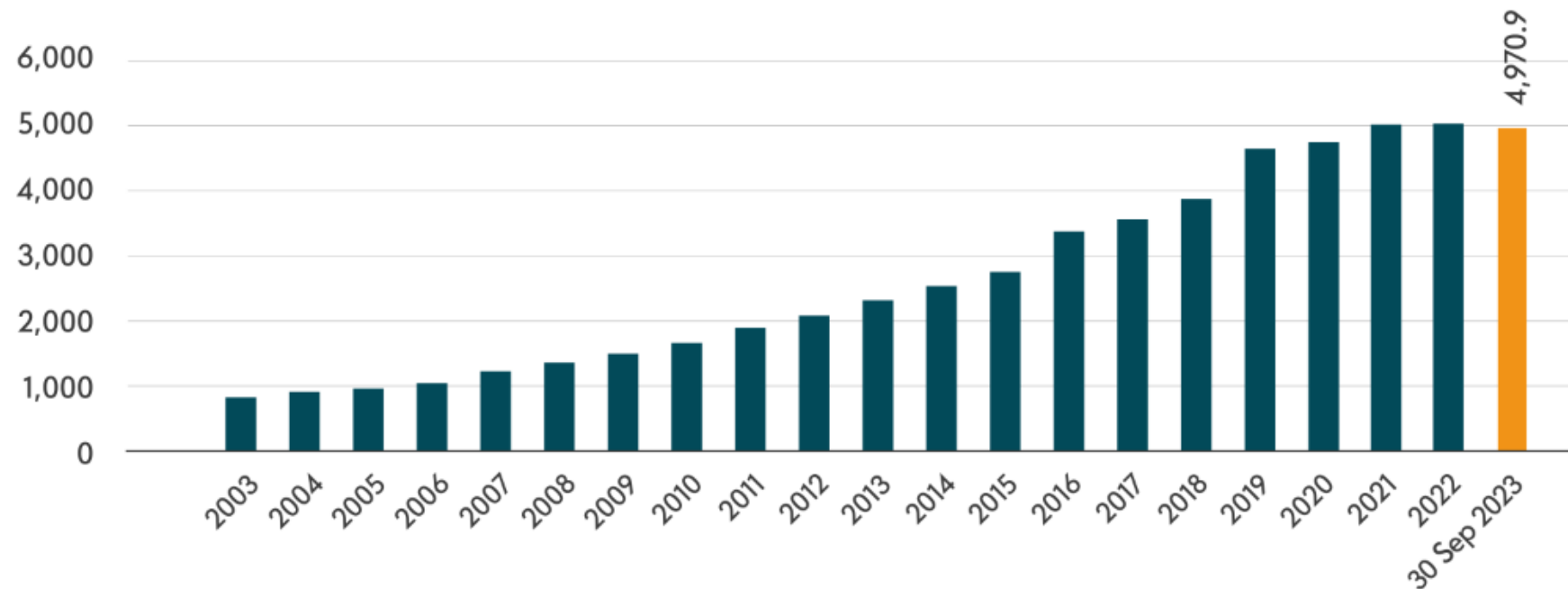
## HOUSING INVESTMENTS AND DIVESTMENTS, MEUR





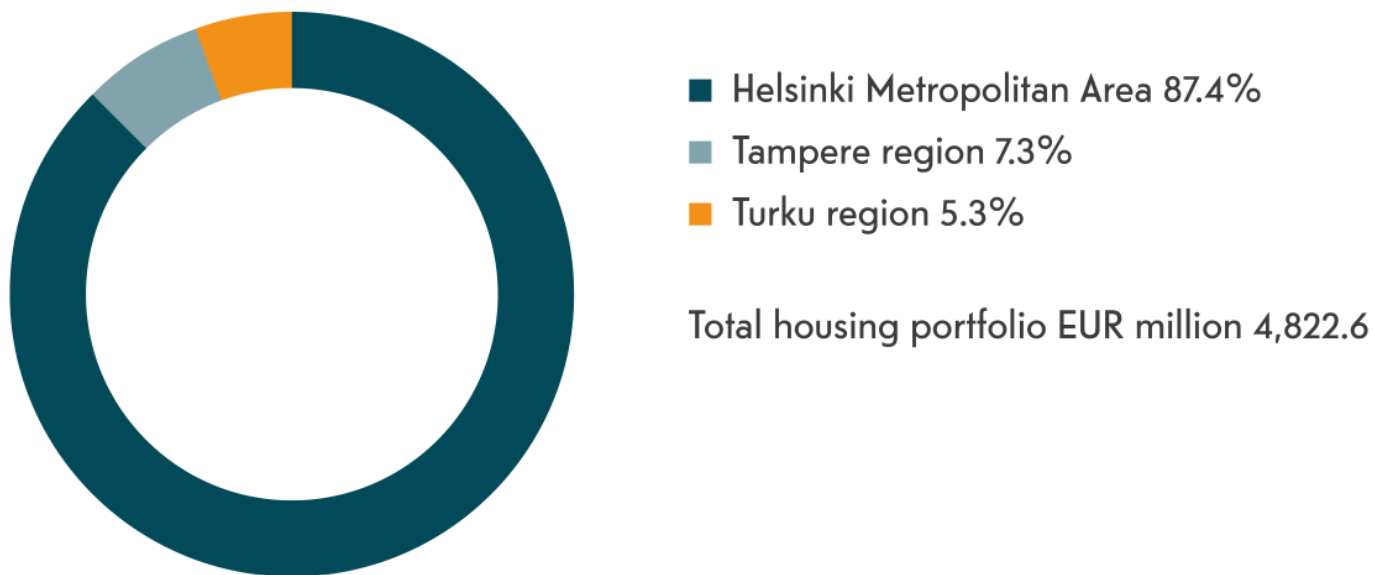
# INVESTMENT PROPERTIES

TREND IN THE INVESTMENT PROPERTY PORTFOLIO, MEUR



# HOUSING ASSETS

## REGIONAL DISTRIBUTION OF THE HOUSING PORTFOLIO ON 30 SEPTEMBER 2023



# MAIN SHAREHOLDERS

Balder Finska Ota AB / Fastighets AB Balder	56.3 %
Stichting Depositary APG Strategic Real Estate Pool	22.6 %
Elo Mutual Pension Insurance Company	12.7 %
The State Pension Fund	4.9 %
Valkila Erkka	0.7 %
SATO Corporation	0.3 %
Entelä Tuula	0.3 %
Heinonen Erkki	0.3 %
Tradeka Invest Ltd	0.2 %
Research Foundation of the Pulmonary Diseases	0.2 %
Others (119 shareholders)	1.5 %

On 29 September 2023, SATO had 56,783,067 shares and 129 shareholders registered in the book-entry system. The share turnover rate was 0.02% for the period from 1 January to 30 September 2023.

# 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. Inflation has remained high regardless of having become more moderate after the winter months, especially thanks to lower energy prices. Core inflation has, however, persisted at a high level and clearly above the two per cent target of the central banks. The European Central Bank still hiked interest rates in September, but the market expects the interest rate peak to be reached during late 2023. Inflation is projected to slow to below two per cent in late 2024.

Inflation has increased maintenance and finance costs and, due to the competitive situation, it has not been possible to transfer these costs in full to apartment rents. The uncertainty in the financial markets and the persistently high interest rates will be reflected in increased finance costs in the future, too. Going forward, SATO's large volume of unencumbered property assets enables the use of less expensive secured finance.

Due to the market situation and higher costs, SATO decided in October 2022 that the company will not launch new construction projects for the time being. In addition to the 97 apartments to be completed in 2023, another 349 newbuild apartments will still be completed in 2024.

The persistently high inflation has weakened consumers' purchasing power and kept consumer confidence at a low level. According to the Bank of Finland's September 2023 interim forecast, Finland's GDP will contract by 0.2% in 2023. Recovery from the recession will be slow, with the economy forecast to grow only by 0.2% in 2024. Having been growing for a long time, employment will dip slightly in 2024 but resume growth again in 2025 as economic growth strengthens.

The economic uncertainty, persistently high interest rate level and increases in living costs have a strong impact particularly on the number of new housing construction projects commenced. The Confederation of Finnish Construction Industries RT forecast of 26 September estimates that the volume of new housing construction projects commenced in 2023 will only be around 16,000, whereas the figure in 2022 was more than 37,000. Projects started in 2022 will still maintain the supply of new homes at a high level particularly in the Helsinki Metropolitan throughout 2023, which will mean competition for good tenants will be very intense and rent increases moderate. Going forward, maintenance and finance costs pushed up by inflation will be reflected in higher apartment rents as supply in the market declines.

The urbanisation trend continues and dense urban housing is becoming increasingly popular in Finland. There is demand for rental homes in growth centres close to good public transport connections and services. The economic uncertainty and the climbing home loan interest rates coupled with increasing energy and other costs also contributes towards growth in demand for rental housing. Some of those looking for a home to buy are now also considering a rental home as an option.

In line with its majority shareholder's operating model, SATO Corporation will not publish guidance on its 2023 earnings. The parent company of Balder Finska Otas AB is Fastighets AB Balder, which is quoted on the Stockholm Stock Exchange.



A photograph of two young children running across a grassy yard in front of a modern, multi-story building with large windows. The child on the left is wearing a blue jacket and a striped beanie, while the child on the right is wearing a dark jacket and a cap, holding a ball. The word 'sato' is overlaid in white lowercase letters in the center of the image.

# sato

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The photos show our residents and glimpses of their everyday life. Above Barak and Joona sprint across the Elosalamantie yard..