



# Interim report Jan-Mar 2023

Presentation material 11<sup>th</sup> May 2023 | Antti Aarnio, President and CEO

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# SATO IN BRIEF

With some  
**25,500** 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 Q1/2023 Helsinki MA  
represented **87%** of our  
investments.

Our net sales in  
Q1/23 were  
**70.9** 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, SATO's operating environment was affected by the war in Ukraine, the rise in costs due to inflation and the continued high level of rental housing supply.

The surge in energy prices brought on by the war in Ukraine pushed the Finnish economy into recession in late 2022. Even though an energy crisis was avoided, the economy's weak performance has persisted due to protracted inflation and high interest rates. Since the turn of the year, energy prices have fallen and inflation has slowed down slightly, but underlying inflation has remained persistently at a high level and that is why central banks have continued their policy of tightening interest rates. Consumer confidence has remained weak and is reflected in consumer caution. According to the Bank of Finland's interim forecast of 17 March, economic growth will remain very weak in 2023 and take a slight upturn in 2024. The favourable trend in the employment rate will level off due to the standstill in economic growth but is not projected to decline. The Bank of Finland projects inflation to be 4.6% in 2023 and to return to below 2% in 2024.

The economic uncertainty, high interest rate level and increases in living costs have affected the number of housing transactions. In the first months of the year, transaction volumes of both new and old homes have been exceptionally low. The record-low demand also has a strong impact on the number of housing construction projects commenced. The Confederation of Finnish Construction Industries RT forecast of 29 May projects that the volume of new housing construction will decline by almost a third this year to around 27,000 homes. Projects started in 2021 and in early 2022 will, however, still maintain the supply of new homes at a high level in the Helsinki Metropolitan throughout 2023. Competition for good tenants will remain intense and rent increases moderate. The cost level driven up by inflation is, however, creating pressure for rent increases in the future.

With greater choice available for those looking for a home, the role of a particularly successful customer experience has become even more important. SATO is strongly invested in increasing its presence close to customers and in digital services.

With the good employment situation continuing, migration to large growth centres has accelerated. The Helsinki region's migration gain in 2022 was 17,420 people – the largest in the 2000s according to Statistics Finland preliminary data. 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 may now also consider a rental home as an option.

There is demand for rental homes in growth centres close to good public transport connections and services. The urbanisation trend continues, and 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.



# INTERIM REPORT JAN-MAR 2023

**Demand for rental homes growing in Helsinki Metropolitan Area**

# HIGHLIGHTS

## Antti Aarnio

- We completed the divestment of our housing business in Russia on 14 April 2023. SATO had operated in St Petersburg since 2007 and owned 522 rental apartments. The transaction has no significant effect on SATO Corporation's result.
- In January, SATO was awarded the 2023 Great Place To Work® certificate and was ranked at number ten in the category for large enterprises among Finland's best places to work. I am very proud and grateful about this recognition, as we in the entire organisation have made sustained efforts to develop our culture at SATO. A total of 85% of SATO employees find that SATO as a whole is a very good place to work.
- We decided in the autumn that we will not launch any new investments for the time being. The rationale behind our decision was the strong increase in construction and property maintenance costs as well as in financing costs while at the same time rent development remained moderate due to the market situation.
- In February 135 new SATO rental homes were completed in a 16-storey tower block in Vermonniitty, Espoo.
- During the period under review (1 January to 31 March 2023), SATO's occupancy rate improved year on year and was 95.0% (94.6). After the coronavirus pandemic, demand for SATO rental homes has been picking up since spring 2022. 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.
- In growth centres, the continued high level of new housing production has sustained intense competition for good tenants. Due to the competitive situation, it has not been possible to transfer the higher maintenance costs in full to apartment rents.
- Because the inflation and the interest rates seem to stay higher for a longer time than expected, the yields for real estate investments are under pressure to rise further. This in turn can have an impact on the fair value of the investment properties.
- I would like to thank SATO employees for their great work to develop customer satisfaction and the housing comfort of our residents.

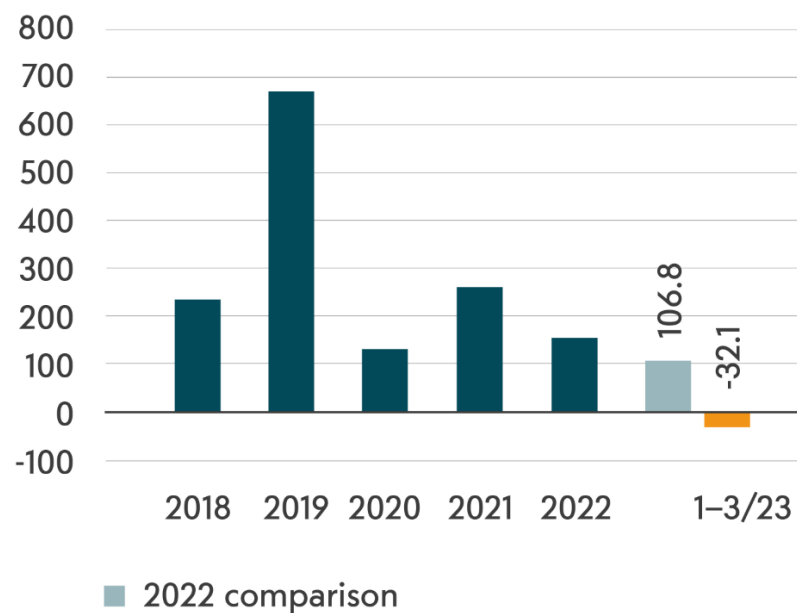
# REVIEW PERIOD JAN-MAR/2023 (JAN-MAR/2022)

- The economic occupancy rate in Finland was 95.0% (94.6).
- Net sales totalled EUR 70.9 million (74.7).
- Net rental income was EUR 40.8 million (44.4).
- Profit before taxes was EUR -32.1 million (106.8).
- The unrealised change in the fair value of investment properties included in the result was EUR -46.9 million (82.6).
- Housing investments amounted to EUR 46.2 million (23.7).
- Invested capital at the end of the review period was EUR 4,822.4 million (4,593.7).
- Return on invested capital was -1.4% (10.4).
- Equity was EUR 2,453.6 million (2,417.1), or EUR 43.34 per share (42.70).
- Earnings per share were EUR -0.46 (1.50).
- A total of 135 rental apartments (0), 0 owner-occupied apartments (0) and 0 FlexHomes (0) were acquired or completed.
- A total of 1,192 rental apartments (1,100), 0 owner-occupied homes (0) and 0 FlexHomes (52) are under construction.
- In February 135 SATO rental homes were completed in a 16-storey tower block in Vermonniitty, Espoo.
- Despite the challenging competitive situation, SATO has succeeded in improving the occupancy rate.

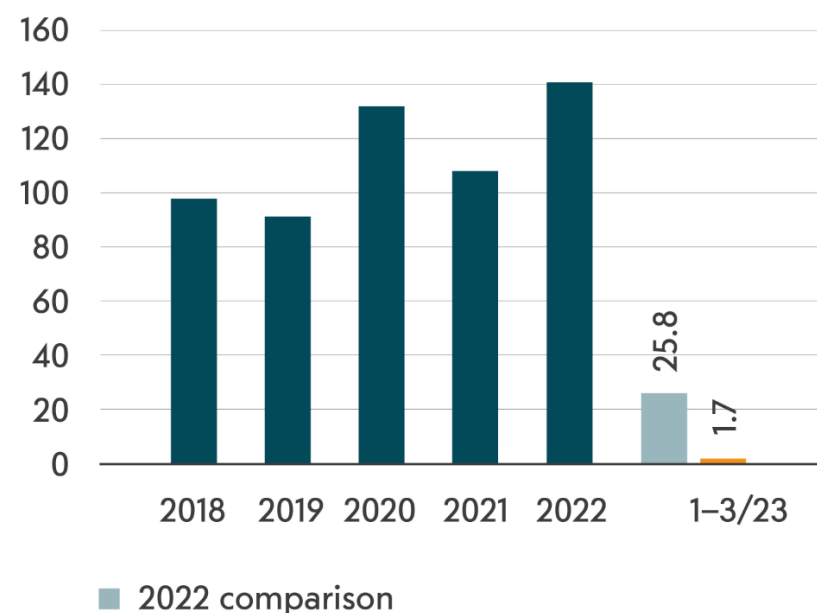


# PROFIT AND CASH EARNINGS

PROFIT BEFORE TAXES, MEUR

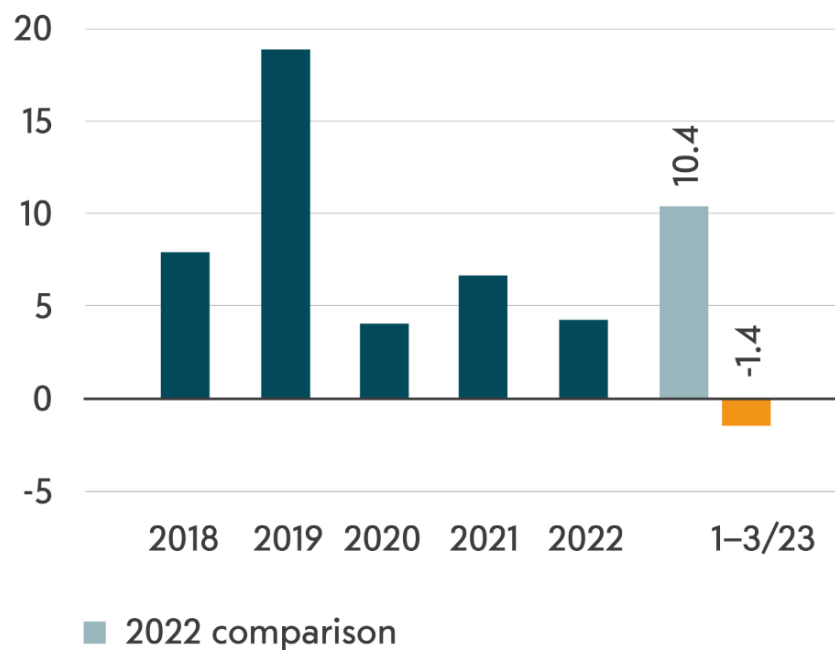


CASH EARNINGS (CE), MEUR



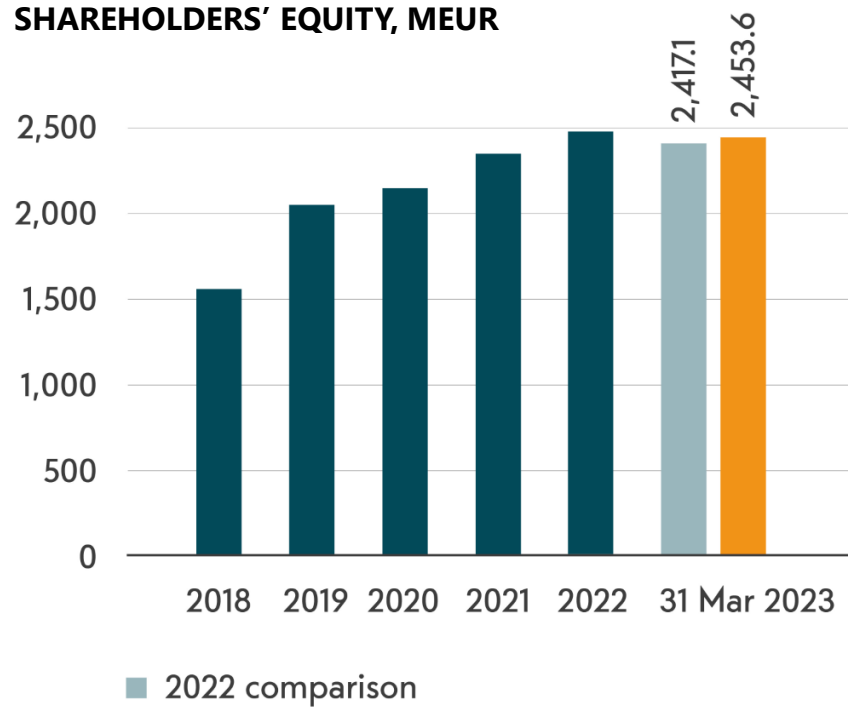
# RETURN ON INVESTMENT

RETURN ON INVESTED CAPITAL, %



# EQUITY

SHAREHOLDERS' EQUITY, MEUR

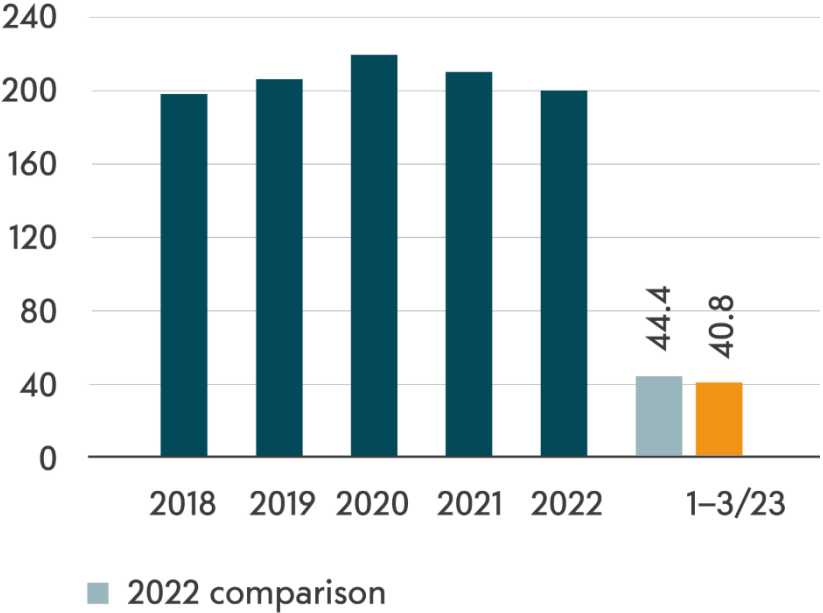


EQUITY RATIO, %



# RENTAL INCOME

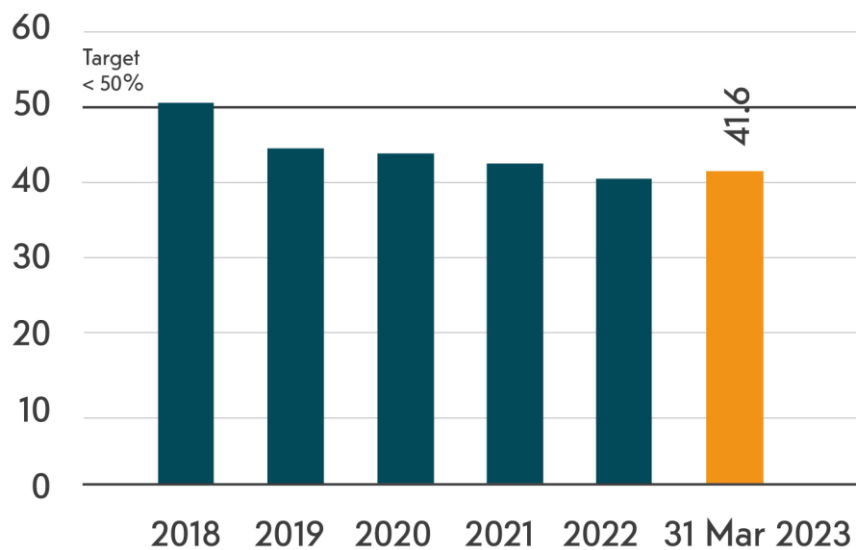
NET RENTAL INCOME, MEUR



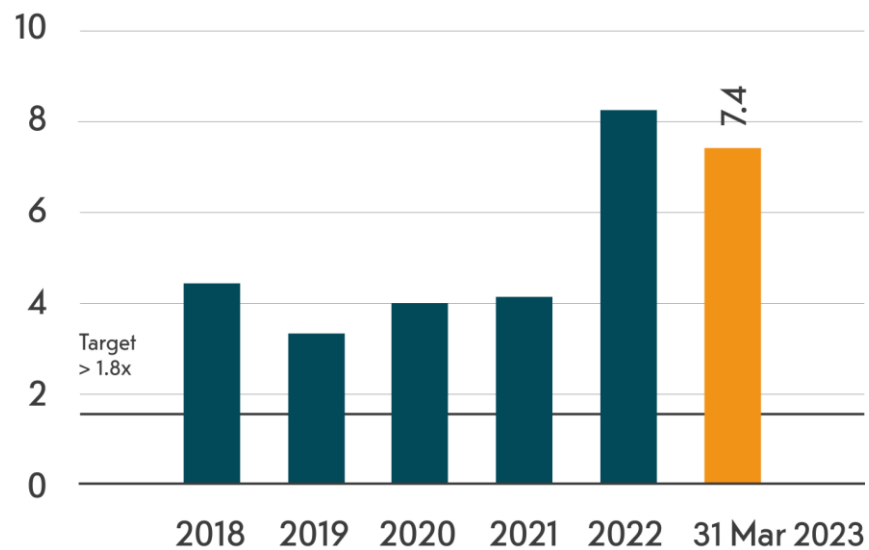


# FINANCING

**SOLVENCY RATIO, %**

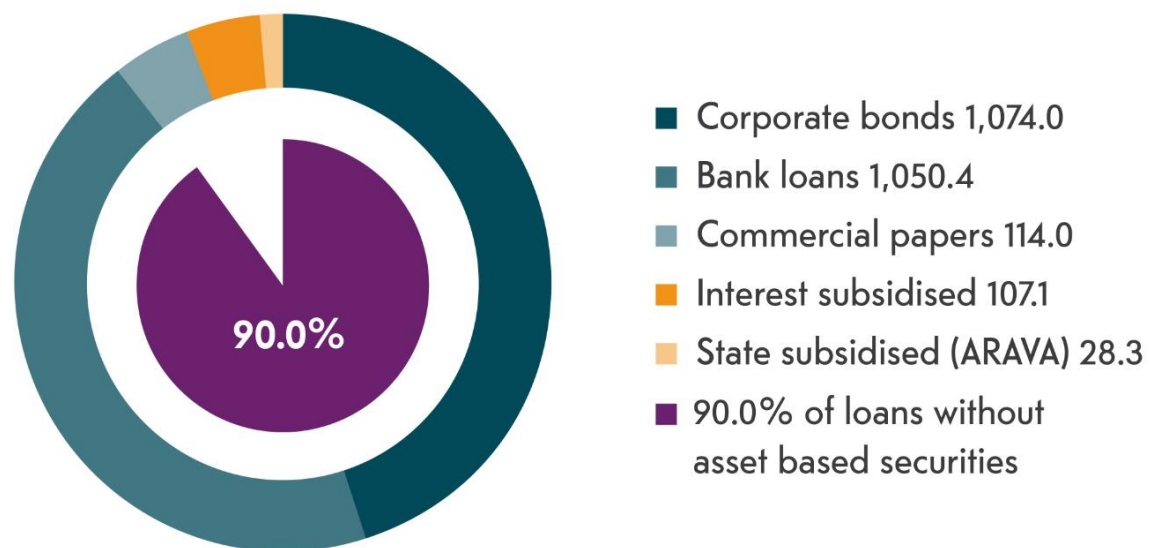


**INTEREST COVERAGE RATIO**

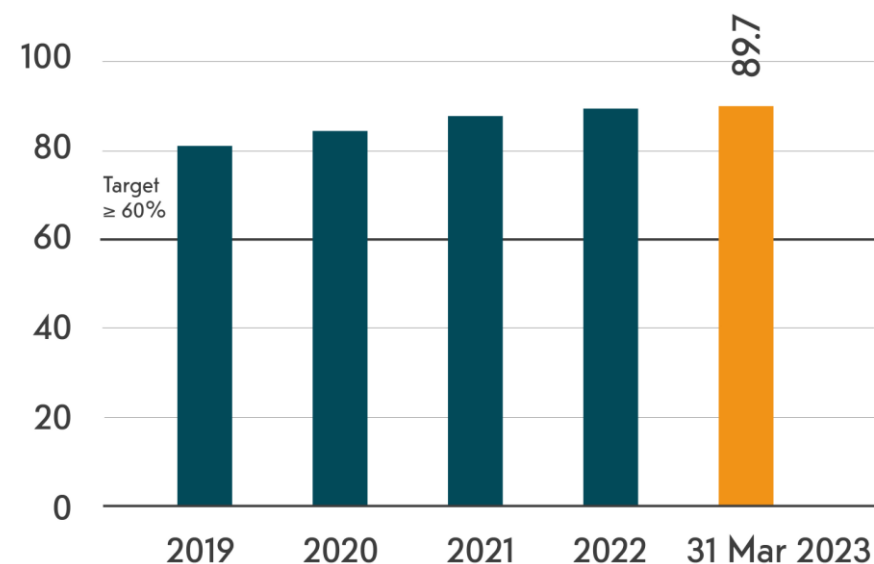


# FINANCING

**DEBT PORTFOLIO, nominal values 31 March 2023,  
TOTAL MEUR 2,373.8**

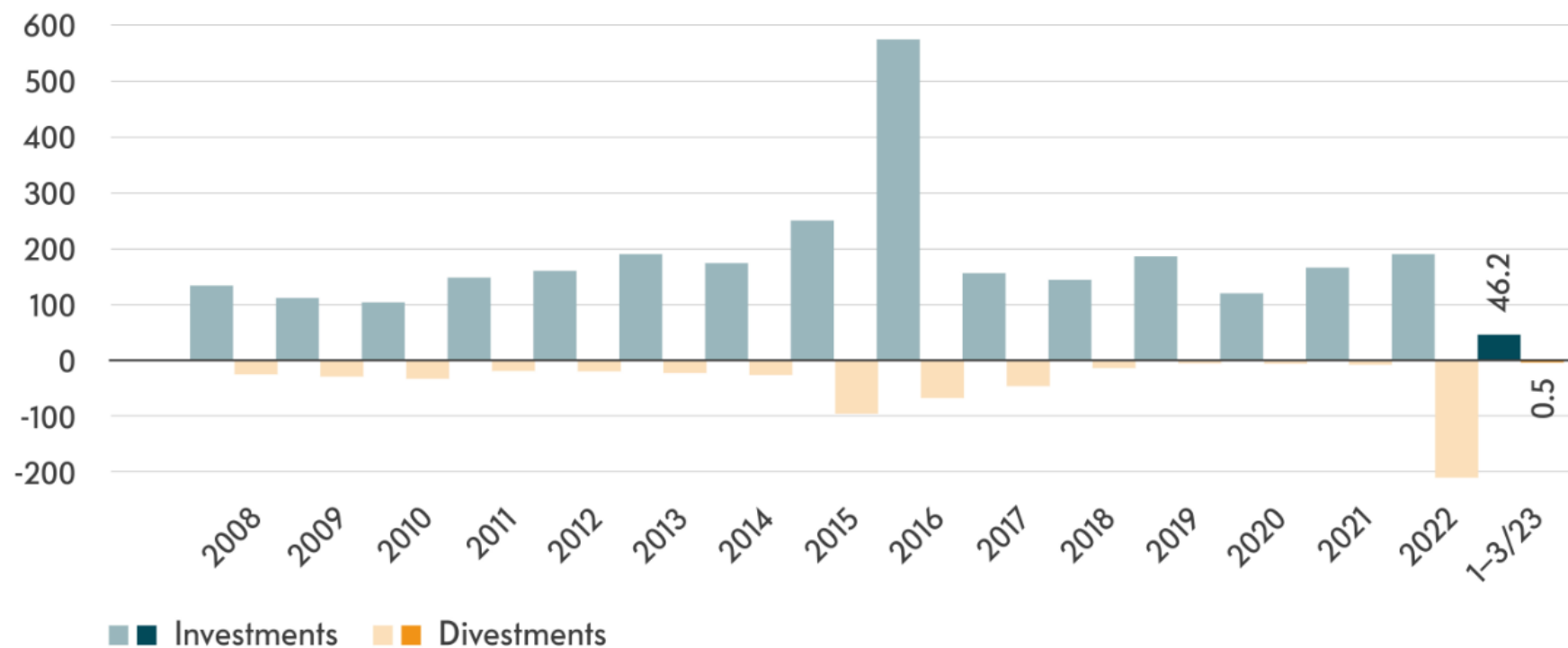


**UNENCUMBERED ASSETS, %**



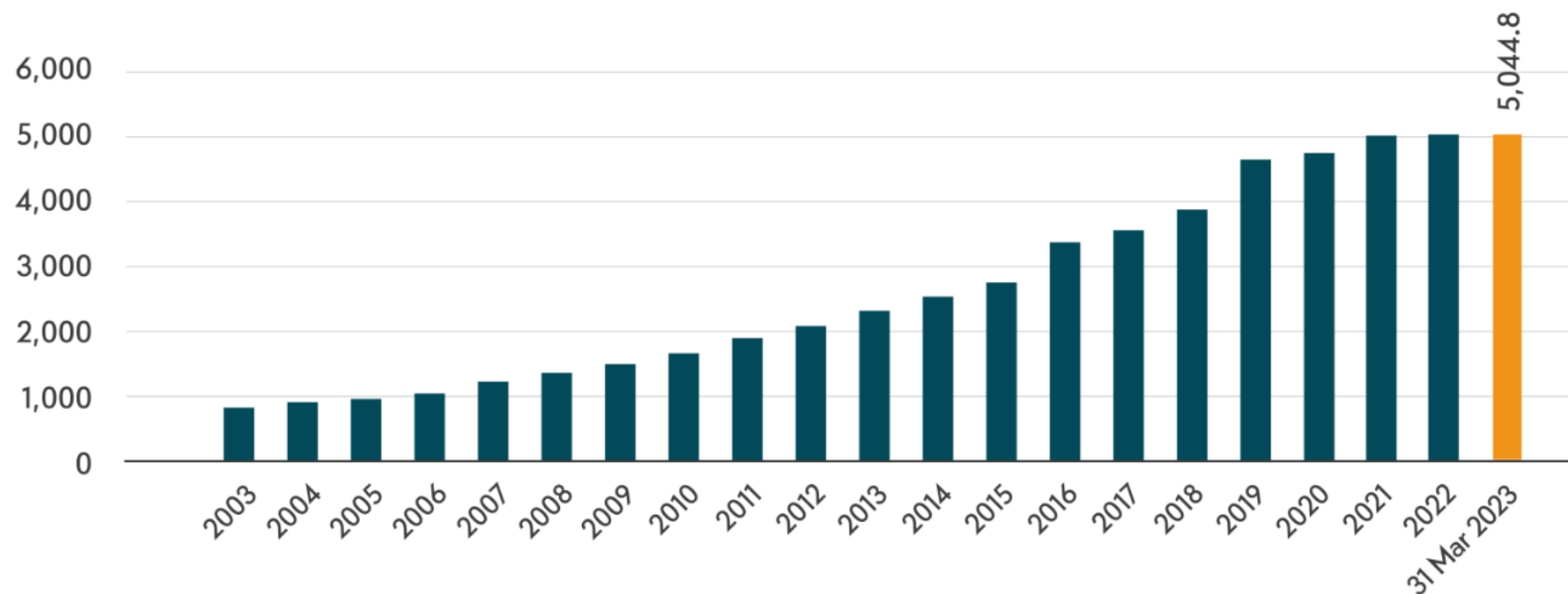
# INVESTMENTS IN FINLAND

## HOUSING INVESTMENTS AND DIVESMENTS, MEUR



# INVESTMENT PROPERTIES

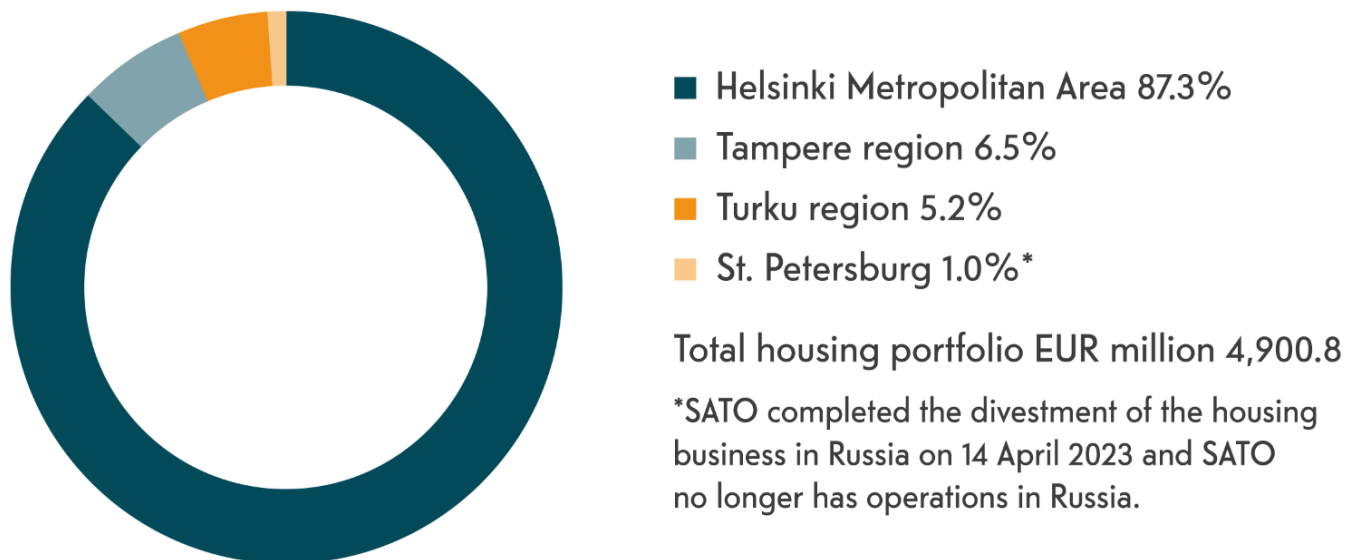
TREND IN THE INVESTMENT PROPERTY PORTFOLIO, MEUR





# HOUSING ASSETS

## REGIONAL DISTRIBUTION OF THE HOUSING PORTFOLIO ON 31 MARCH 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 (117 shareholders)	1.5 %

On 31 March 2023, SATO had 56,783,067 shares and 127 shareholders registered in the book-entry system. The share turnover rate was 0.0% for the period from 1 January to 31 March 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, the competitive situation and interest rate level.

The surge in energy prices brought on by the war in Ukraine pushed the Finnish economy into recession in late 2022. Even though an energy crisis was avoided, the economy's weak performance has persisted due to protracted inflation and high interest rates. Since the turn of the year, energy prices have fallen and inflation has slowed down slightly, but underlying inflation has remained persistently at a high level and that is why central banks have continued their policy of tightening interest rates. Consumer confidence has remained weak and is reflected in consumer caution. According to the Bank of Finland's interim forecast of 17 March, economic growth will remain very weak in 2023 and take a slight upturn in 2024. The favourable trend in the employment rate will level off due to the standstill in economic growth but is not projected to decline. The Bank of Finland projects inflation to be 4.6% in 2023 and to return to below 2% in 2024.

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With greater choice available for those looking for a home, the role of a particularly successful customer experience has become even more important. SATO is strongly invested in increasing its presence close to customers and in digital services.

With the good employment situation continuing, migration to large growth centres has accelerated. Helsinki region's migration gain in 2022 was 17,420 people – the largest in the 2000s according to Statistics Finland preliminary data. 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 may now also consider 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.



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