Lumo Homes plc, Q3'26

Niina Saarto (00:00-00:34)
Good morning all and welcome. This is Lumo Homes plc's third quarter result webcast. I am Niina Saarto from Treasury and Investor Relations. Today I have two gentlemen here with me, CEO Reima Rytsölä and then we have Antti Syvänen, our interim CFO. Following their presentation, we will take questions over the phone lines in the Q&A. Also, you can start sending chat questions. So, without further ado, we can start the presentation. Thank you.

Reima Rytsölä (00:40-12:31)
Thank you, Niina, and very good morning. Good morning from me as well. Glad to be here for our Q3 release.

We had an operationally very strong quarter behind us. Our total revenue, net rental income, and FFO increased from the corresponding period.

Still, our balance sheet remains strong and liquidity is in a very good position. I think the highlight of the Q3 was the improvement in occupancy rate. It was a very strong development. Not only did the market improve in Q3, but so did our own performance. And we were able to raise the first nine months' occupancy rate to 95.5%, and the Q3 occupancy was 96.4%.

A big part of this improvement was because of our acquired portfolio, which we took over on the 1st of April. And we were able to raise that portfolio's occupancy to 96.8% in September. This is a very meaningful improvement when we bear in mind that actually when we took over the portfolio on April 1st, the occupancy in that portfolio was 83%. So, very good performance.

Thanks to our team for that success.

I will come back a little bit later to the market conditions overall, but definitely, especially in the capital region, the market has improved and this supply of rental apartments has started to come gradually down.

We also increased our yield requirements, which caused the fair value to decline by ten basis points, but we also included the acquired portfolio in our fair value valuation method. And that gained more than EUR 100 million in fair value, which offset the decline in fair value caused by the yield requirement increase. So, we will go more thoroughly through the details.

Details of fair value changes. When we released the deal, the acquisition of 4,761 apartments, we said that if and when we were able to raise the very low occupancy to a stabilised level, which we have now done. So we expect some fair value or that there is a potential for some fair value gains. This quarter illustrated that fair value changes of more than €100 million are also very positive. Also, Moody's affirmed our Baa2 credit rating with a stable outlook in September.

And, during the autumn, we have continued to refinance our maturing bank loans and extend the maturity of our loan portfolio, where we still have EUR 250 million of bridge facility to be refinanced. And we have earlier said that we will do it by capital market transactions. There is a chance as well that we refinance that portfolio with bank loans and our excessive cash during the end of this year.

But if we go to the operating environment. As already communicated in the last earnings release, the economic environment has definitely improved in Finland, especially in the

capital area. Even though the unemployment rate has not come down yet. The number of employees or new jobs has increased in the capital area, which has supported the rental market as well.

On the supply side, the supply is very muted. Given the recent interest rate rises which we have seen, I would say that it is preventing new residential start-ups even more than it used to, so that the gap between existing apartment prices and the replacement cost in the new start-up market has further widened. So it has further widened. We expect that new residential start-ups will be very muted this year, but also next year.

As I said, the rental market conditions have improved, especially from a landlord's point of view, so that the oversupply has started to decline. As you can see here in this graph, especially in the capital area, led by Helsinki and Espoo, but also elsewhere, the supply has started to come down and it is encouraging in a way. Of course, we still have room to improve on market conditions. But it is definitely a good start and gives a signal that the market has started to stabilize.

As I already said earlier, I think Helsinki is leading the market stabilisation in the Helsinki area. It comes basically from population growth and also the household growth in the capital area, and that development is backed up by the fact that new jobs are actually being created at the moment in the capital area.

And just a kind reminder as to why the capital area is so important for us. So, 76% of our asset value is located in the Helsinki region. So that truly is dominating our portfolio.

As I mentioned, the occupancy development of the acquired portfolio has been strong. The portfolio that we acquired from Varma on 1st of April, that development has been really positive. I am really glad that overall, the integration process has gone even more smoothly than we ourselves expected. But I think it is a good illustration that our platform has really good operational leverage. The acquired 4,761 apartments represent roughly 12% of our balance sheet.

It is a fairly significant part of the portfolio. The integration went really smoothly, and especially the digital sales and strong online conversion illustrated our sales capacity, as well as the maintenance operations that we took over. That has gone smoothly, and that also illustrates, as we communicated earlier, that the asset quality is very good in that portfolio and in attractive locations. It has been, so to say, easy to lease those vacant apartments, or easy given these market conditions. But still, given the fact that we were able to raise the occupancy in this portfolio from 83% to 96.8% in a six-month time, I think it is a very good performance from our team.

All in all, I will let Antti Syvänen take you more thoroughly through the figures. I think the mild disappointment of our Q3 results was the slightly declining NPS. We had both internal organizational changes in our housing organization and also the replacement of our partners in maintenance and cleaning in September, which caused what we expect to be a temporary decline in NPS, and we keep on working on better customer experience and expect to achieve that.

On the strategic targets, we are well in line regarding revenue growth, as I said, but in customer satisfaction, we still have some work to do, as well as with the average annual growth of FFO per share, which is flat for the first nine months. Having said that, I think it is worth mentioning that actually the acquired portfolio was accretive in the first six months of its existence in terms of FFO per share. It was a declining FFO per share in the first quarter before we acquired the portfolio, and our loan to value is slightly over our target at 46.1%, mainly due to a fair value decline this quarter which affected that figure.

On my side at the moment, I think this is all. I will now let Antti take the stage. So we will be back for the Q&A session. Thank you.

Antti Syvänen (12:44-21:47)
Hello, everybody. Also from my side, my name is Antti Syvänen. I am acting as interim CFO of Lumo until Tommi Valando starts in January. So let's walk through the financials in more detail. Starting from the top line.

Revenue for January–September increased by €19.6 million, or 5.7%, mainly due to an improved financial occupancy rate. And, of course, the acquisition of the Varma Mutual Pension Insurance Company portfolio in April. The acquisition increased total revenue by €29.4 million. On the other hand, the revenue was negatively affected by disposals made in 2025 and 2026 by roughly €15 million.

Net rental income increased €15.8 million, or 6.8%, and the net rental income margin improved from 67.4% to 68.2%. The acquired portfolio supported this development, although higher heating expenses after the cold start of the year partly offset this benefit. Moving on to the next slide.

January–September FFO increased by €4.8 million, or 4.6%, from €106.1 million to €110.9 million, driven by the acquisition of the Varma portfolio. The total amount of financial income and expenses increased by €9 million year-on-year due to higher interest rates. FFO per share remained at the same level compared to last year at €0.43 per share.

Profit before taxes, excluding fair value changes, increased €12.2 million from €110.9 million to €123.1 million. Profit before taxes was a loss of €25 million, compared with a profit of €9.1 million a year earlier, and higher yield requirements reduced the valuations. On the other hand, moving the acquired portfolio into the fair value model partly offset this decline. But I will come back to this in more detail later on.

Occupancy rate: the cumulative financial occupancy rate for January through September was 95.5%, up 1.1 percentage points from 94.4% a year earlier, and the rate also increased from the first half of the year.

The third quarter average was 96.4%, compared with 96.1% a year earlier, and the occupancy rate for the acquired portfolio rose to 96.8%, and this is the figure at the end of September.

Tenant turnover ratio, excluding internal moves, rose slightly from 20.7% to 21.6%.

Like-for-Like rental income grew by 1.8% over the latest 12 months compared with the preceding 12 months, and the measure covers properties owned for two consecutive years. So it separates the existing portfolio development from the acquisitions or from disposals.

Improved occupancy contributed approximately 2.4% of the growth. Rents and water charges, on the other hand, reduced the growth by approximately 0.7 percentage points, while other effects added approximately 0.1 percentage points.

Investments: gross investments totaled a bit over €880 million, compared with €27.7 million last year. The acquisition, completed in April, of course, drives this increase. At the same time, we have sold 343 apartments during the review period and the disposals include properties in Turku, Rovaniemi, Kerava, and care properties. Modernization investments increased from €19 million to €21.3 million, and repairs were approximately at the same level compared to the year before.

The fair value of investment properties was €8.3 billion, compared with €7.6 billion a year earlier, representing a 9.2% annual increase. The increase mainly reflects the larger portfolio.

And as mentioned, we have increased our yield requirements by 10 basis points. That was mainly due to the higher interest rate environment that had a negative effect of €209.7 million. On the other hand, we included the acquired portfolio in the fair value model, which had a positive impact of €107.3 million.

Equity ratio and loan-to-value ratio have remained solid. The equity ratio was 44.6%. At the end of September, compared with 45.6% a year earlier. LTV (Loan to Value) was a bit over our internal target of 45%. It was 46.1%, compared to last year's 42.2%.

We see this increase over 45% to be temporary.

Our financial position has remained strong. Our reported liquidity was a bit over €900 million at the end of September. This includes roughly €100 million of cash and financial assets, which we can use to refinance the remaining bridge loan. Then we have €275 million of unused committed facilities, a €500 million backstop facility, and a €50 million undrawn term loan. As mentioned, Moody’s affirmed our Baa2 credit rating with a stable outlook in September.

In August, we signed a €100 million loan agreement with OP, refinancing a €75 million loan maturing in 2027. In September, we refinanced our €50 million loan with SMBC and at the same time increased its amount to €100 million. And the additional 50 million term loan remained undrawn at the end of the review period.

After the review period, we refinanced a EUR 125 million syndicated loan, and as a result of the amendment, the maturity of the loan has been extended from October 2027 to early 2030, and it includes two one-year extension options. The average interest rate stood at 3.4% at the end of September.

Key figures per share. They both decreased due to the increased yield requirements. Equity per share was down 3% from 14.74 to 14.33, and EPRA NTA was down 4.3% from 19.61 to 18.4.

And finally, the outlook. The outlook for 2026 remains unchanged. We continue to expect that the 2026 total revenue is somewhere between 488 and 493 million, and FFO in between 147 and 152 million.

Yes, that's all from the finance side.

Niina Saarto (21:48-21:59)
Thank you. I guess we can now start the Q&A session.

Do we have any questions over the phone lines? We can take them first.

Operator (22:00-22:18)
If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad.

The next question comes from John Vong from Van Lanschot Kempen. Please go ahead.

John Vong (22:20-22:39)
Hi. Good morning. Thank you for taking my questions. So you have done well by moving occupancy to stabilized levels at quite a rapid pace as you were aiming for. I was just wondering, what are the next steps from here?

Is there scope for rental growth, or will it be a situation of slowly burning off the incentives?

Reima Rytsölä (22:41-23:24)
Yes, I think, of course, rental growth is our aim. We actually haven't offered any incentives for a while now. So the market, as we said, started to improve during the summer time. And even after the summer time. So it is definitely the case that our focus is more on rental growth.

And we expect that such pricing power will occur with some delay following market improvement.

John Vong (23:28-23:42)
Maybe just following up on that. Because if I look at your valuation parameters, I saw that there was a negative effect on expense growth assumptions. Could you provide a bit more color on that? Does that mean that you are seeing pressure on your operating margins?

Reima Rytsölä (23:43-24:20)
Actually, no. It was more a matter of changing the parameters for aging buildings, specifically regarding their CapEx requirements and maintenance expenses. That was because we wanted to mirror the parameters to our history of realized costs. So, we wanted to match them. And that cost was roughly 30 to 40 million euros.

Antti Syvänen (24:21-24:22)
€32.5 million.

John Vong (24:26-24:51)
Okay. That is fair. Thank you. And then lastly, you mentioned that you've written up the former portfolio by more than €100 million. Just by changing the valuation methods.

Just to confirm, is this valuation method now in line with the rest of your portfolio? And does that mean that you have made a good bargain purchase? Or what does that mean for the rest of the portfolio assets in this market?

Reima Rytsölä (24:52-25:52)
I think it does. To answer your first question, it does mean that the valuation method is now in line with the rest of the portfolio. And we obviously look at that. That is, by definition, a fair value. Now, with the given assumptions that we have used.

As we said earlier, we expect that if we are able to show our operative capabilities to raise the very low occupancy. Given the discounted cash flow valuation method. We expect that there is a potential for a fair value gain as well.

John Vong (25:56-25:58)
Okay. That is clear. Thank you.

Operator (26:01-26:05)
The next question comes from Neeraj Kumar from Barclays. Please go ahead.

Neeraj Kumar (26:06-26:25)

Morning, everyone. I have a few questions on my side. Firstly, on the valuation front, I see your largest shareholder, Heimstaden Bostad AB, marked down their Finnish portfolio by 4% in Q3 and over 6% in the last year. So how do you compare your valuation movements compared to theirs, basically?

Reima Rytsölä (26:26-27:38)
Well, we don't by any means link our valuations to Heimstaden Bostad AB's method of evaluating their portfolios. That is the starting point. The reason why we actually raised the yield requirement was basically due to market interest rates. How would I describe the development, even though we view it from a long-term perspective as well. Given the fact that the interest rate market has risen significantly, we haven't seen any transaction activity on the acquisition side, nor do we have any acquisition evidence as such, which is also another part of the valuation method.

Even though we haven't seen that. We decided to get together with JLL, who is assessing our fair value method. So we decided to raise the yield requirement by ten basis points.

Neeraj Kumar (27:40-28:03)
Got it. Thank you. My second question is regarding your LTV; you mentioned that the breach from your internal policy threshold of 45% is temporary. Can you help me understand how you plan to bring it in line with your policy? Are you banking upon valuation gains to reach there?

Or do you expect valuations to drop even further from here? How exactly do you plan to reach your 45% target?

Antti Syvänen (28:04-28:24)
We do not account for any future fair value changes to reach that 45% target. But it naturally comes from the FFO that Lumo can generate. So, basically, when we pay off loans, it will reach below 45%. If no other changes happen in the valuation.

Neeraj Kumar (28:28-28:35)
You mean you are looking to reduce the gross debt. So whatever FFO comes, you're not paying dividends and you're going to reduce the debt, is that what you are saying?

Antti Syvänen (28:36-28:56)
Well, our policy is to pay dividends or buy back shares, at most 20%. And the rest we can use to repay our loans. So it would come after the dividend or buybacks. We should reach a loan-to-value ratio below 45% if there are no changes in valuation.

Neeraj Kumar (28:57-29:13)
Got it. Now, coming on to the debt side, I see your average debt maturity is 2.5 years, and you have significant debt maturities coming up. I just wanted to understand what sort of margins you are expecting for your debt to be refinanced at?

Reima Rytsölä (29:14-30:56)
Well, first of all, I think it is good to bear in mind that we already have an arrangement for 500 million. We have a backstop facility which is against the bond maturing in the spring. 2027, and we can also withdraw that facility as collateralized funding. So that is even though it shows up there as the bond maturing in May 2027. So we have already an arrangement for that refinancing in place.

Obviously, the current refinancing levels are much higher than six months ago; that's for sure. And we all can see that. And that is why we try to maneuver as well as possible and to look for as cost-effective funding as possible. We are in a good position, in a way that all the

funding sources seem to be very much open for us. And the bank funding appetite is even better than some months ago at the moment.

So, that is why bank funding is probably a more probable source than it was something like six months ago.

Neeraj Kumar (30:58-31:20)
Got it. And lastly, it is good to see that Moody's affirmed your rating. I see we are below the downgrade thresholds when it comes to ICR, as you are at 2.3 compared to their downgrade threshold of 2.5. And given what we discussed about the refinancing environment, how do you expect your ICR to develop over the next year? And do you see a risk of a downgrade from Moody's?

Reima Rytsölä (31:22-32:08)
Well, we definitely do not expect any downgrade from Moody's. It is fair to say that if the funding costs increase meaningfully, the ICR is under pressure. Having said that, I think Moody's will, according to the meetings that we have had with them. So, Moody's is looking at a more comprehensive picture and the financial policy as such, and at least so far, they have been very convinced that our financial and funding policy are prudent. That is why we are not worried about that.

Neeraj Kumar (32:10-32:20)
Got it. And probably the last question linked to it. So, do you have any insights on what kind of refinancing rate they are assuming for you guys in terms of forecasting their ICR, etc. .

Reima Rytsölä (32:21-32:23)
Sorry, can you repeat the question?

Neeraj Kumar (32:23-32:42)
I just wanted to understand how realistic the refinancing assumptions for Moody's might have been in September. As we know, the environment has changed significantly since then. So, I just wanted to understand what the refinancing rate or margin is that Moody's is assuming, and are you able to refinance at those levels?

Reima Rytsölä (32:43-33:32)
Well, I think the Moody's financing levels, not to remember the figures exactly, are probably given the timing of the report and the developments since that. Interest rates have risen. I think they are probably a bit lower than the current market rates, but I will not comment on specific targets regarding our refinancing rates. However, we believe that we will be able to maneuver in the market to secure decent priced funding costs for our refinancing.

Neeraj Kumar (33:34-33:35)
Got it. Thank you very much for answering all the questions.

Unknown 1 (33:35-33:36)
Thank you.

Operator (33:39-33:57)
As a reminder, if you wish to ask a question, please dial the pound key on your telephone keypad.

There are no more questions at this time. So I hand the conference back to the speakers.

Niina Saarto (33:58-34:29)

Okay. Thank you. Actually, it seems that we have covered most of the chat questions here. Maybe a couple. We discussed the valuation and the assumption changes.

Was it a formal valuation? Can you confirm it was not just some internal adjustments made? Was it a normal formal valuation? And do you expect more yield changes by the end of the year?

Reima Rytsölä (34:31-35:08)
Well, it was a normal quarterly procedure where we fair value all of our assets, and JLL, as an external assessor, re-evaluates our methodology. So, in a sense, if I understood correctly the wording formal. So it was in a sense a formal valuation. And then we are definitely not giving any guidance on future yield requirements.

Niina Saarto (35:08-35:33)
Okay. Thank you. And then the last question is about the acquired portfolio occupancy. It reached 96.8% already. You commented that it is at a stabilized occupancy rate level.

So do you see any potential that it increases going forward?

Reima Rytsölä (35:34-36:19)
Could occupancy increase further? Well, of course, it is possible, but I think, as I have said earlier, that with the... Given the current market conditions, even though they are improving somewhat at the moment. So. So to have a higher occupancy than the 97% to 98% range is probably not optimizing or maximizing your revenue anymore.

In a sense, there is still room to improve, but much more limited room than it had some six months ago.

Niina Saarto (36:20-36:43)
Yes. Thank you. So that was the last question. We will publish the financial statements in February, on 18 February to be specific. And thank you all for joining us today.

Now I wish you all a very good rest of the year. Bye bye.

Reima Rytsölä (36:43-36:44)
Thank you. Thanks.