

PRESS RELEASE 12 July 2024

Half-year Report January - June 2024

- Income amounted to SEK 1,882 million (2,221)
- Operating surplus amounted to SEK 1,223 million (1,543)
- Net financial income amounted to SEK –622 million (–741)
- Profit from property management amounted to SEK 517 million (710)
- Changes in value of properties amounted to SEK –1 million (–1,406) during the quarter and to SEK –485 (–2,911) during the period
- Changes in value of derivatives amounted to SEK –72 million (–95)
- Profit/loss for the period amounted to SEK 6 million (–2,729)
- Net letting amounted to SEK 87 million
- The value of investment properties amounted to SEK 56,101 million (58,033)
- Net asset value (NAV) per ordinary share of class A and B amounted as of 30 June to SEK 17.28 (17.57)

EVENTS DURING THE SECOND QUARTER

- During the quarter, 20 properties were divested for a total underlying property value of SEK 800 million.
- During the quarter, several leases were signed, including five leases in the properties 28&7 and 1245 Broadway in New York, and two leases in the property Majorna 219:7 in Gothenburg.
- Bonds with an outstanding amount of SEK 2,261 million were redeemed at maturity.
- Repurchase of bonds totaling SEK 1,036 million was made, mainly consisting of SEK 716 million in bond maturing in October 2024 and SEK 253 million in bond maturing in February 2025.
- Senior unsecured green bonds of SEK 500 million were issued under a framework of SEK 2,000 million, with a term of 2.75 years, carrying a variable interest rate of 3-month Stibor plus 375 basis points and maturity on 19 January 2027. Under the same framework, additional bond loans were issued totaling SEK 550 million.
- An increase of SEK 150 million was made in bonds maturing in May 2026.

Comment by the CEO

Positive net letting and continued focus on a long-term strong balance sheet

When we sum up the first half of the year, we can take pride in the continued strength of our core operations in letting and property management with positive net letting of SEK 87 million. We have continued the work to strengthen our balance sheet. So far this year we have divested or agreed to divest a total of 33 properties and we will continue to further reduce the property portfolio during the year. We see that liquidity is increasing in the capital market and in May we were relieved to receive the announcement of the first interest rate cut.

The market that we operate on has been affected for a number of years now by the effects of a pandemic, a challenging geopolitical climate and a financial situation with increased interest rates and rising inflation. If we also take into account a bond market which for a period was more or less completely closed, we can quickly draw the conclusion that the business climate has been extremely challenging. All real estate companies have struggled with depressed values and increased financial expenses and those with a high exposure to the bond market have had to divest parts of their portfolios to deal with their maturities, including ourselves.

New Corem

Corem has navigated through these years with a clear sense of direction and therefore we are now a smaller company. We have shrunk our assets and our project commitments considerably. We give priority to tenant adaptation over major investments and even though around SEK 500 million remains to invest in our major ongoing projects, they contribute at the same time SEK 322 million in annual rental value.

We have sold over 220 properties during a two-and-a-half-year period and in this way almost halved our bond debt. During the first six months of 2024, a total of 33 properties were divested, or agreement was reached to divest, at an underlying property value of SEK 2.7 billion. Among other things, we divested our entire portfolio in Jönköping. This is a continuing process but it is nice to feel that it probably won't continue to get worse before it gets better.

Now we are again seeing inflation of a more controlled nature, with in the long run more favorable interest rates and a bond market that has opened up again. Even the yield requirements have now probably reached their peak level and the transaction market, which in Sweden never became completely inactive, has stabilized. Overall, this is of course incredibly positive and we can fully focus on our new, slightly smaller Corem, to take on the future.

Stable core operations

The rental market generally shows relatively good demand. We can forget about the post-pandemic concern that the heydays of offices was over. Attendance at offices is increasing even if there are expectations of continuing possibilities of hybrid work. Our tenants are, of course, also positively affected by our having passed the peak of interest rates, which is reflected in dialogue with new and existing customers and in the number of enquiries about premises. Negotiation processes are still relatively long although the rental market is active, which is reflected in our letting statistics. Net letting amounted to SEK 37 million in the quarter and to SEK 87 million for the first half year.

To date this year, Corem has signed over 400 lease contracts at a value of approximately SEK 300 million. It is particularly gratifying that we have let around 3,500 square metres to the Swedish Coast Guard and around 1,500 square metres to Freemelt, at the property Majorna 219:7 in the Fiskhamn area of Gothenburg. This area is undergoing an exciting transformation from industrial and port activities to modern offices close to the city. We have also signed five new lease contracts in New York during the quarter corresponding to a total of approximately 2,350 square meters, including restaurant space at 1245 Broadway to JKS Restaurants and the other week a contract for 380 square metres at 28&7 to Garden Intelligence.

Total operating surplus has decreased given the changed composition of the portfolio although in a comparable portfolio, the operating surplus increased by 1 per cent and income by 4 per cent. Profit from property management amounted to SEK 517 million for the first half of the year. It's held back compared to the previous year as a result of sales and higher market interest rates. The result for the period, i.e. the result after, for example, changes in value and tax, was again positive after approximately two years of significant negative changes in value and amounted to SEK 6 million for the first half of 2024.

Our key figures for both the operating margin and the economic occupancy rate have gradually slightly decreased after the divestments. But, bearing in mind the strong net letting we have reported to date this year and last year, we are confident that the opposite effect will gradually affect our key figures although some rentals will only take effect in 2025 and 2026. The occupancy rate in the second quarter amounted, as in the previous quarter, to 86 per cent and the operating margin to 65 per cent for the first half of the year.

Focus on strengthened balance sheet

As mentioned above, Corem has for a long period had a major focus on reducing debt and thus strengthening the balance sheet. We have achieved this both by amortization of bank debts as well as redeeming bonds. We have handled two large bond maturities totaling SEK 2.3 billion during the quarter, which were redeemed in their entirety and in addition we have made buybacks of almost SEK 1 billion in bonds that mature in October 2024 and in February 2025.

Since year-end, we have seen increasing liquidity in the capital market, which has led to shrinking credit margins. The prerequisites thus exist again for raising new loans in the bond market which is why we also issued new green bonds during the first half of the year of a total of SEK 2.3 billion..

We will continue to place a major focus on our financing and on reducing our loan-to-value ratio long-term. The interest-bearing debt amounted at the end of the second quarter to SEK 32.2 billion.

Optimized operations

We look forward with confidence to an improved business climate in which we can continue to optimize our operations and, after our large divestments, focus again on increasing the occupancy rate and the operating margin. With the ongoing work of strengthening our balance sheet, we are also well equipped for current market prospects and for rapid changes in the market.

I would like to wish our employees, investors and tenants a very pleasant summer.

Rutger Arnhult
CEO

Stockholm, 12 July 2024

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