

eQ Commercial Properties Fund

Interim Report 1.1.2023 – 30.6.2023 – REVISED 4.9.2023

Key events during the reporting period

The fund's gross asset value was EUR 1297.5 million at the end of the reporting period (EUR 1301.6 million at the end of December 2022). Net asset value was EUR 734.8 million at the end of the reporting period (EUR 798.5 million at the end of December 2022).

During the reporting period the fund made no transactions. Construction of a major development project was ongoing in the Kivistö district in Vantaa.

Throughout the review period, the fund's rental cash flows remained solid and the fund managed to make new leases and significant lease renewals.

The Funds return was -1.9% in the H1 and 0.6 % for the last 12 month period. Since inception, the fund has generated a return of 7.6 % p.a. to its unitholders.

Property portfolio

At the end of the reporting period, the fund owned 49 real estate companies, including two partly-owned properties and one company under construction, with a total leasable area of approximately 460,000 sqm (460,000 sqm at the end of H2/2023). The property portfolio has a high occupancy rate of 92 %.

Net rental income for the reporting period was EUR 30,7 million¹⁾ (EUR 58.9 ¹⁾ million for the full year 2022). Annualized net rental income based on the end of the review period was EUR 78,5 million (EUR 78 million at the end of December 2022), which corresponds to an initial return of approximately 6.0 %.

During the reporting period the fund succeeded well in leasing activities by making new leases, and notable lease renewals.

At the end of the reporting period, the fund had 584 individual rental agreements and 401 unique tenants. The five largest tenants accounted for 28 % of the rental income. The weighted average lease term of the portfolio at the end of the reporting period was 5.5 years (5.2 years at the end of December 2022).

The real estate investment market in Finland was active in 2022 but slowed down towards the end of the year. The Fund made no transactions during the review period, however, a major development project of a local center Kivis in Kivistö Vantaa, is still under construction. Kivis is fully let and will offer versatile services when it opens in October 2023. Anchor tenants are HOK-Elanto, Lidl and City of Vantaa.

¹⁾ Figures as presented in the consolidated income statement

The rental income generated by properties within the Capital Region and Greater Helsinki Area was 76 % of the rental income, at the end of the reporting period. Rental income from the Helsinki-Turku-Tampere growth triangle accounted for 89 % of rental income.

Annualized rental income by asset location and type as of 30 June 2023

Rental income by asset location		Rental income by asset type	
Capital Region	75%	Office	27%
Greater Helsinki Area	1%	Retail	24%
Tampere Area	13%	Grocery	20%
Hämeenlinna	7%	Daily Services	13%
Kuopio	2%	Discount Retail	6%
Turku Area	2%	Hotel	5%
		Industrial and logistics	3%
		Other	2%

Fund subscriptions & redemptions

The fund's subscription dates occur quarterly at the end of March, June, September and December. The biannual redemption dates occur at the end of June and December with a six months' notice period.

During the reporting period the fund had two subscriptions days, at the end of March and end of June as well as a redemption day at the end of June (six months' notice period, in the end of December 2022). Aggregate subscriptions during the reporting period amounted to EUR 18 million, while redemptions amounted to EUR 27 million.

Debt financing

Total interest-bearing debt at the end of the reporting period stood at EUR 600 million (EUR 600 million at the end of December 2022).

EUR 470 million was in the form of term loans and EUR 130 million of bond financing. These financings are secured by a single pool of property assets.

In addition, the fund has an unsecured revolving credit facility usable on short notice for any general business purposes. During the reporting period the Fund renewed the RCF agreement and increased the total available amount to EUR 35 million. After the reporting period EUR 15 million was drawn leaving EUR 20 million available.

In accordance with the fund rules, the fund may raise long-term debt up to half of the gross asset value of the fund.

As of the end of June 2023 the fund's LTV ratio was 44,48 % (43.65 % as of the end of December 2022). The fund's interest coverage ratio was 2.3x (3.4x) on a rolling 12-month basis.

The Fund is currently in discussions with existing and new financiers regarding the refinancing of part of its existing term loans as well as the repayment of its EUR 130 million bond financing.

Outlook

The real estate investment market in Finland was very active in 2022. Total investment volume reached € 7.2 billion. It was up by 1 % compared to the previous year. There was a record high activity in the first half of the year. Markets slowed down towards the end of the year as a result of the growing market uncertainty caused by global inflationary pressures and rising interest rates. Prime yields decompressed due to increased financing costs and rising interest rates.

The real estate investment market continued to slowing down in the first half of 2023 due to continued rise of interest rates and the total investment volume in Finland was 1.5 billion euros. Yield decompression continued in several property sectors during the first half of the year.

The debt financing market is expected to stay challenging through-out the year 2023. However, the interest rate environment should peak at year-end and gradually ease its damping effect on the real estate market as of late 2023. Consequently, also the real estate transaction market activity is expected to start recovering in late 2023 across different property sectors.

The fund expects to invest approximately EUR 10 million to building projects during the next six months and continues active letting. The fund's strategy is to focus on Helsinki and Tampere area. The fund is focusing on divestments and the gross asset value is expected to lower during H2/2023. In addition the fund is aiming to deleverage during next 12 to 24 months time.

Gross Rental Income	44 545 233,38
Property operating expenses and expenses from leasing operation	-13 850 419,31
Net Rental Income	30 694 814,07
Property sale gains	1 626 882,24
Unrealized profit (loss) for the period	-17 154 650,86
Other operating gains	215 248,23
Fees to the management company and custodian	-7 792 822,32
Other operating expenses	-1 230 130,94
Operating Profit	6 359 340,42
Financial income	450 522,07
Interest to financial institutions	-12 353 548,33
Financial expenses	-1 009 190,93
Profit before taxes	-6 552 876,77
Profit for the period	-6 552 876,77

ICR for the preceeding 12 months	2,3:1
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ASSETS		
NON-CURRENT ASSETS		
Investment properties		1 297 497 000,00
Other intangible assets		7 718 342,05
CURRENT ASSETS		
Short-term receivables		
Other receivables		107 350 871,41
Prepayments and accrued income		
CASH AND CASH EQUIVALENTS		43 854 076,05
TOTAL ASSETS		1 456 420 289,51
EQUITY AND LIABILITIES		
FUND VALUE		
Fund assets		655 058 615,72
Distributions		-39 952 776,73
Profit for the previous periods		145 912 777,52
Profit for the period		-6 613 353,54
TOTAL FUND VALUE		754 405 262,97
LIABILITIES		
Long-term liabilities		
Loans from financial institutions		470 000 000,00
Long-term liabilities		130 000 000,00
Short-term liabilities		
Other liabilities		11 907 965,59
Accruals and deferred income		90 107 060,95
TOTAL LIABILITIES		1 456 420 289,51
TOTAL EQUITY AND LIABILITIES		1 456 420 289,51

INTEREST-BEARING LIABILITIES	600 000 000,00
FUND'S TOTAL ASSETS	1 349 069 418,10
FUND LOAN TO VALUE	44,48 %

Cash flows from operating activities		
Profit before taxes		-6 552 876,77
Unrealized profit (loss) for the period		17 154 650,86
Finance income and costs		0,00
Other adjustments		0,00
Change in working capital		
Current non-interest bearing receivables, increase(-) / decrease(+)		27 216 861,29
Current non-interest bearing liabilities, increase(+) / decrease(-)		747 049,33
Interest paid and other finance cost		0,00
Interest received		0,00
Taxes paid		0,00
Net cash flows from operating activities		38 565 684,71
Cash flows from investing activities		
Payments from tangible and intangible assets		-5 698 132,07
Net cash flows from investing activities		-5 698 132,07
Cash flows from financing activities		
Short-term interest bearing Liabilities, increase(+) / decrease(-)		0,00
Long-term interest bearing Liabilities, increase(+) / decrease(-)		0,00
Fund subscription		27 001 417,74
Fund redemptions		-27 186 110,40
Distributions		-39 952 776,73
Other items		798 426,31
Net cash flows from financing activities		-39 339 043,08
Change in cash and cash equivalents		-6 471 490,44
Cash and cash equivalents at the beginning of reporting period		50 325 566,49
Cash and cash equivalents at the end of reporting period		43 854 076,05