



# eQ Finnish Real Estate Fund

*Interim Report 1.1. – 30.6.2020*

## Key events during the reporting period

The fund's growth slowed down in H1 due to the outbreak of Covid-19 virus with the fund's gross asset value totaling EUR 1069 million at the end of the reporting period (EUR 1087 million at the end of December 2019). Net asset value totaling EUR 656 million at the end of the reporting period (EUR 712 million at the end of December 2019).

In line with its strategy, the fund divested two properties outside the Helsinki capital area, transaction values totaling EUR 39 million.

Throughout the review period and despite the harsh market conditions, the fund's incoming cash flows remained solid. The fund initiated two major development projects in Q1 and managed to make significant leases.

In the middle of the Covid-19 outbreak, the fund faced notable redemption requests in the end of the Q1 (payable in the end of Q2) and distributed previous year's profit in the beginning of April. However, the equity flow turned around in the end of Q2 in the form of cancelled redemptions and net subscriptions.

The fund generated a return of 1.4% in the H1, which was a strong performance compared to its peer group and under the prevailing conditions. Since inception, the fund has generated a return of 8.6% p.a. to its unitholders.

## Property portfolio

At the end of the reporting period, the fund owned 48 real estate companies, including two partly-owned properties with a total leasable area of approximately 432,500 m<sup>2</sup> (433,700 m<sup>2</sup> at the end of 2019). The property portfolio has a high occupancy rate of 95%, which was unchanged from the end of December 2019.

Net rental income for the reporting period was EUR 29 million (EUR 44 million for the full year 2019). Annualized net rental income based on the end of the review period was EUR 59 million (EUR 50 million at the end of December 2019), which corresponds to an initial return of approximately 6.0%.

Due to Covid-19 virus and the government lockdown of restaurants and cafeterias, the fund negotiated rent reductions with such tenants. Deferred payment arrangements were done with some other tenants suffering from Covid-19 impacts. Nevertheless, the challenging market situation, the fund succeeded exceptionally well in leasing activities by making new leases, notable lease renewals and extensions both in office and retail premises.

At the end of the reporting period, the fund had 508 individual rental agreements and 361 unique tenants. The five largest tenants accounted for 35% of rental income. The weighted average lease term of the portfolio at the end of the reporting period was 5.7 years (5.4 years at the end of December 2019).

In Q1 the fund initiated construction on two major development projects i.e. a parking facility in Helsinki Jätkäsaari for the Port of Helsinki and a local centre in Tampere Kaleva with anchor tenants Kesko and Isku Group.

The fund divested two non-strategic properties outside the Helsinki area. These were the first divestments since the inception of the fund. Divestments were:

- In the end of February, divestment of an industrial building – Katekuja 9, Siilinjärvi
  - Transaction value, approximately EUR 11 million
- In the end of June, divestment of the shares of partly-owned office and patient hotel building – Biokatu 14, Tampere
  - Transaction value, approximately EUR 28 million

The fund made no new acquisitions but in line with its strategy, it continues to search high-quality properties and development possibilities in Helsinki area and Tampere.

The rental income generated by properties within the Capital Region and Greater Helsinki Area was 70% of rental income, at the end of the reporting period. Rental income from within the Helsinki-Turku-Tampere growth triangle accounted for 96% of rental income.

#### *Annualized rental income by asset location and type as of 30 June 2020*

Rental income by asset location		Rental income by asset type	
Capital Region	66%	Office	26%
Greater Helsinki Area	4%	Grocery	26%
Tampere Area	15%	Retail	21%
Hämeenlinna	7%	Daily Services	13%
Turku Area	3%	Discount Retail	8%
Kuopio	2%	Hotel	3%
Seinäjoki	2%	Industrial	3%

## **Fund subscriptions & redemptions**

During the reporting period the fund had two subscriptions windows, at the end of March and end of June as well as a redemption window at the end of March (payable in the end of June). Aggregate subscriptions during the reporting period amounted to EUR 51 million, while redemptions amounted to EUR 71 million. The fund's next joint subscription and redemption window will occur at the end of September (redemptions are payable at the end of December).

The fund's annual profit distribution of EUR 41 million was distributed to unitholders in April.

Even though the fund faced notable redemptions in the middle the Covid-19 epidemic, the equity flow turned around in the end of June and is expected to remain on the growth track.

## **Debt financing**

During the reporting period, the fund kept the amount of outstanding debt unchanged. Total interest-bearing debt at the end of the reporting period stood at EUR 440 million (EUR 440 million as of 31 December 2019), of which EUR 130 million was in the form of bond financing



and EUR 310 million of term loans. All current financings are secured by a single pool of property assets.

In order to improve its liquidity as well as the capability to react to unexpected market events, the fund agreed on a temporary amendment with the existing term loan lenders releasing deposit account's holdings into the fund's use. In addition, the fund agreed on an unsecured EUR 15 million revolving credit facility with a new lender.

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

As of the end of June 2020 the fund's LTV ratio was 39% (39% as of the end of December 2019). The fund's interest coverage ratio was 5.7x on a rolling 12-month basis (7.0x as of the end of December 2019).

## Outlook

The fund continues to see attractive opportunities to continue to growth in the current market in line with its strategy. The fund expects to invest EUR 100 million in new acquisitions and building projects during the next 6 months and also to shape its current property portfolio according to the fund's strategy. Active letting and ongoing development projects also advocates a positive outlook for the remaining of 2020.



eQ Liikekiinteistöt

**CONSOLIDATED INCOME STATEMENT**

1.1.-30.6.2020

<b>Gross Rental Income</b>	<b>39 143 223,79</b>
Property operating expenses and expenses from leasing operation	-9 696 873,75
<b>Net Rental Income</b>	<b>29 446 350,04</b>
Property sale gains	2 648 485,77
<b>Unrealized profit (loss) for the period</b>	<b>4 334 192,89</b>
Other operating gains	2 530 715,77
Fees to the management company and custodian	-6 854 466,72
Other operating expenses	-5 550 725,07
<b>Operating Profit</b>	<b>26 554 552,68</b>
Financial income	1 098 455,71
Interest to financial institutions	-3 700 361,11
Financial expenses	-6 610 709,13
<b>Profit before taxes</b>	<b>17 341 938,15</b>
<b>Profit for the period</b>	<b>17 341 938,15</b>

<b>ICR for the preceeding 12 months</b>	<b>5,7:1</b>
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**eQ Liikekiinteistöt**  
**CONSOLIDATED BALANCE**  
**SHEET**

**30.6.2020**

<b>ASSETS</b>	
NON-CURRENT ASSETS	
Investment properties	1 068 790 865,00
Other intangible assets	
CURRENT ASSETS	
Short-term receivables	
Other receivables	48 466 700,62
Prepayments and accrued income	0,00
CASH AND CASH EQUIVALENTS	56 150 227,85
<b>TOTAL ASSETS</b>	<b>1 173 407 793,47</b>
<b>EQUITY AND LIABILITIES</b>	
FUND VALUE	
Fund assets	765 793 509,94
Distributions	-129 608 170,88
Profit for the previous periods	40 430 720,10
Profit for the period	17 341 938,15
<b>TOTAL FUND VALUE</b>	<b>693 957 997,31</b>
LIABILITIES	
Long-term liabilities	
Loans from financial institutions	310 000 000,00
Long-term liabilities	130 000 000,00
Short-term liabilities	
Other liabilities	8 254 536,03
Accruals and deferred income	31 195 260,13
<b>TOTAL LIABILITIES</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 173 407 793,47</b>

  

INTEREST-BEARING LIABILITIES	440 000 000,00
	1 124 941
FUND'S TOTAL ASSETS	092,85
<b>FUND LOAN TO VALUE</b>	<b>39,11 %</b>

<b>Cash flows from operating activities</b>		
Profit before taxes		17 341 938,15
Unrealized profit (loss) for the period		-4 334 192,89
Finance income and costs		0,00
Other adjustments		0,00
Change in working capital		
Current non-interest bearing receivables, increase(-) / decrease(+)		-63 300 919,48
Current non-interest bearing liabilities, increase(+) / decrease(-)		14 902 220,74
Interest paid and other finance cost		0,00
Interest received		0,00
Taxes paid		0,00
<b>Net cash flows from operating activities</b>		<b>-35 390 953,48</b>
<b>Cash flows from investing activities</b>		
Payments from tangible and intangible assets		51 421 255,23
<b>Net cash flows from investing activities</b>		<b>51 421 255,23</b>
<b>Cash flows from financing activities</b>		
Short-term interest bearing Liabilities, increase(+) / decrease(-)		0,00
Long-term interest bearing Liabilities, increase(+) / decrease(-)		0,00
Fund subscription		48 874 645,82
Fund redemptions		-5 729 020,62
Distributions		-42 698 458,62
Other items		-2 707 640,61
<b>Net cash flows from financing activities</b>		<b>-2 260 474,03</b>
<b>Change in cash and cash equivalents</b>		<b>13 769 827,72</b>
<b>Cash and cash equivalents at the beginning of reporting period</b>		<b>7 385 501,82</b>
<b>Cash and cash equivalents at the end of reporting period</b>		<b>21 155 329,54</b>