



# eQ Finnish Real Estate Fund

*Interim Report 1.7. – 31.12.2019*

## Key events during the reporting period

The fund continued on its track of profitable growth with the fund's real estate portfolio value reaching EUR 1,087 million at the end of the reporting period (EUR 959 million on 30 June 2019) and net asset value reaching EUR 712 million at the end of the reporting period (EUR 653 million on 30 June 2019).

The fund's strong track record as well as the prevailing low interest rate environment continued to attract new capital into the fund during the reporting period. Net subscription inflows amounted to EUR 32 million during the reporting period.

The fund generated a return of 7.7% during the previous twelve-month period (1.1.-31.12.2019) and an exceptionally strong last quarter with a return of 2.9 % due to successful leasing totaling approximately 5.500 square meters. The fund has generated to its unitholders a return of 9.2 % p.a. since the inception.

In line with its strategy, the fund increased its share of high-quality office properties in the Helsinki Capital Region with two new property acquisitions and with one office acquisition in Tampere CBD:

- July, acquisition of an office building – Hämeenkatu 19, Tampere (CBD)
- September, acquisition of two office buildings – Keilaranta 5 and 7, Espoo Keilaniemi
- November, acquisition of two office buildings from Alberga Business Park – Bertel Jungin aukio 5 and 7, Espoo Leppävaara

## Property portfolio

At the end of the reporting period, the fund owned 50 real estate companies, including two projects under construction, with a total leasable area of approximately 433,700 sqm (420,000 sqm on 30 June 2019). The property portfolio continued its strong performance with a high occupancy rate of 95%, which was unchanged from the end of June 2019.

Net rental income for the reporting period was EUR 28 million (EUR 52 million for the full year 2019). Annualized net rental income based on the end of the review period was EUR 64 million (EUR 59 million on 30 June 2019), which corresponds to an initial return of approximately 5.9%.

At the end of the reporting period, the fund had 500 individual rental agreements and 355 unique tenants. The five largest tenants accounted for 37% of rental income. The weighted average lease term of the portfolio at the end of the reporting period was 5.4 years (5.8 years on 30 June 2019).

In line with its strategy, the fund continued to increase the share of high-quality properties in the fastest growing cities in Finland. The fund purchased five modern office buildings in three separate acquisitions.

The remaining bond financing was targeted on an acquisition of an office building in Tampere CBD. The fund has significant ownings in the Tampere CBD office market and this acquisition further increased the fund capability to compete in the market.

The fund purchased two BREEAM good rated office buildings from Keilaniemi, Espoo. Keilaniemi is one of the most wanted office location in Helsinki Area. In the coming years, Keilaniemi will be developed into an international business, research and innovation hub. The metro, the upcoming Light Rail line and Aalto University in the immediate vicinity serve as excellent cornerstones of Keilaniemi's development.

The fund also purchased two BREEAM very good rated office building from a modern Alberga business park that is located in the best micro location of Leppävaara. Leppävaara is one of the prime office submarkets in Helsinki Capital Region. Leppävaara is an important traffic and service hub and the transport connections will further improve in the future, when the Jokeri Light Rail line starts operating.

According to the strategy, the fund has two building projects under development. The fund signed a long-term lease agreement with the Port of Helsinki on June 2019 and the construction works of a parking house in Jätkäsaari in the southern Helsinki starts at the beginning of March 2020. There will be 730 parking places in the parking house. In Tampere, the Fund is developing a local centre in a developing residential area and key retail location.

The property acquisitions, conducted during the reporting period, increased the rental income generated by properties within the Helsinki Capital Region and Greater Helsinki Area to 68 % (64% on 30 June 2019). Rental income from the Helsinki-Turku-Tampere growth axis accounted for 95 % of rental income.

No property disposals occurred during the reporting period.

#### *Annualized rental income by asset location and type as of 31 December 2019*

| Rental income by asset location |     | Rental income by asset type |     |
|---------------------------------|-----|-----------------------------|-----|
| Capital Region                  | 64% | Retail                      | 37% |
| Greater Helsinki Area           | 4%  | Office                      | 30% |
| Tampere Area                    | 17% | Grocery stores              | 23% |
| Hämeenlinna                     | 7%  | Hotel                       | 6%  |
| Kuopio Area                     | 3%  | Industrial                  | 4%  |
| Turku Area                      | 2%  |                             |     |
| Seinäjäoki                      | 2%  |                             |     |

### **Fund subscriptions & redemptions**

Investor interest in the fund continued on a strong growth track. During the reporting period the fund had two subscriptions windows as well as two redemption windows, due to a shift in redemption dates, on 31 September and on 31 December. Aggregate subscriptions during the reporting period amounted to total EUR 47 million, while redemptions amounted to EUR 15 million. The fund's next subscription window will occur at the end of March and redemption window will occur at the end of June.

## Debt financing

During the reporting period the fund continued to deepen its financing base by extending its senior secured bond in two phases. The amount of the bond was increased by EUR 10 million in July and by another EUR 30 million in November 2019, increasing its outstanding amount to EUR 130 million. The financing was used to finance the new property purchases during the period.

Total interest-bearing debt at the end of the reporting period amounted to EUR 440 million (EUR 400 million on 30 June 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 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 December 2019 the fund's LTV ratio was 39% (39% on 30 June 2019). The fund's interest coverage ratio was 7.0x on a rolling 12-month basis (7.0x on 30 June 2019).

## Outlook

The fund continues to see opportunities to continue to grow in the current market in line with its strategy. The fund expects to invest app. EUR 150 million in new acquisitions and building projects during the next 6 months. The fund also expects to make first property sale since the inception of the fund during the next 6 months. Active letting and ongoing development projects also advocates a positive outlook for 2020.

|   |                      |
|---|----------------------|
| <b>Gross Rental Income</b>                                      | <b>74 438 265,30</b> |
| Property operating expenses and expenses from leasing operation | -22 410 836,58       |
| <b>Net Rental Income</b>  | <b>52 027 428,72</b> |
| Property sale gains   | 6 658,33             |
| Unrealized profit (loss) for the period                         | 27 319 185,41        |
| Other operating gains   | 2 167 712,10         |
| Fees to the management company and custodian                    | -13 173 726,00       |
| Other operating expenses  | -12 114 760,77       |
| <b>Operating Profit</b>   | <b>56 232 497,79</b> |
| Financial income  | 996 981,84           |
| Interest to financial institutions                              | -5 640 565,45        |
| Financial expenses  | -395 515,48          |
| <b>Profit before taxes</b>                                      | <b>51 193 398,70</b> |
| <b>Profit for the period</b>                                    | <b>51 193 398,70</b> |

|                                     |  |                         |
|-------------------------------------|--|-------------------------|
| <b>ASSETS</b>                       |  |                         |
| NON-CURRENT ASSETS                  |  |                         |
| Investment properties               |  | 1 087 046 664,87        |
| Other intangible assets             |  | 20 050 433,69           |
| CURRENT ASSETS                      |  |                         |
| Short-term receivables              |  |                         |
| Other receivables                   |  | 17 184 438,84           |
| Prepayments and accrued income      |  | 13 986 915,50           |
| CASH AND CASH EQUIVALENTS           |  | 7 385 501,82            |
| <b>TOTAL ASSETS</b>                 |  | <b>1 145 653 954,72</b> |
| <b>EQUITY AND LIABILITIES</b>       |  |                         |
| FUND VALUE                          |  |                         |
| Fund assets                         |  | 722 647 884,74          |
| Distributions                       |  | -86 909 712,20          |
| Profit for the previous periods     |  | -5 825 192,03           |
| Profit for the period               |  | 51 193 398,70           |
| <b>TOTAL FUND VALUE</b>             |  | <b>681 106 379,21</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                   |  | 13 485 231,21           |
| Accruals and deferred income        |  | 11 062 344,30           |
| <b>TOTAL LIABILITIES</b>            |  | <b>453 547 575,51</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b> |  | <b>1 145 653 954,72</b> |

|   |   |                        |
|---|---|------------------------|
| <b>Cash flows from operating activities</b>                               |   |                        |
| Profit before taxes   |   | 51 193 398,70          |
| Unrealized profit (loss) for the period                                   |   | -27 319 185,41         |
|   | Finance income and costs  | 0,00                   |
|   | Other adjustments   | 0,00                   |
| Change in working capital   |   |                        |
|   | Current non-interest bearing receivables,<br>increase(-) / decrease(+)  | -4 616 947,27          |
|   | Current non-interest bearing liabilities,<br>increase(+ ) / decrease(-) | 3 921 222,61           |
| Interest paid and other finance cost                                      |   | -2 876 972,23          |
| Interest received   |   | 164 653,26             |
| Taxes paid  |   | 0,00                   |
| <b>Net cash flows from operating activities</b>                           |   | <b>20 466 169,66</b>   |
| <b>Cash flows from investing activities</b>                               |   |                        |
| Payments from tangible and intangible assets                              |   | -340 842 447,82        |
| <b>Net cash flows from investing activities</b>                           |   | <b>-340 842 447,82</b> |
| <b>Cash flows from financing activities</b>                               |   |                        |
|   | Short-term interest bearing Liabilities,<br>increase(+ ) / decrease(-)  | 0,00                   |
|   | Long-term interest bearing Liabilities,<br>increase(+ ) / decrease(-)   | 270 333 750,00         |
|   | Fund subscription   | 118 156 642,40         |
|   | Fund redemptions  | -25 446 664,61         |
|   | Distributions   | -36 931 167,02         |
|   | Other items   | -13 892 230,69         |
| <b>Net cash flows from financing activities</b>                           |   | <b>312 220 330,08</b>  |
| <b>Change in cash and cash equivalents</b>                                |   | <b>-8 155 948,08</b>   |
| <b>Cash and cash equivalents at the beginning<br/>of reporting period</b> |   | <b>15 541 449,90</b>   |
| <b>Cash and cash equivalents at the end<br/>of reporting period</b>       |   | <b>7 385 501,82</b>    |