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# Q3

## INTERIM REPORT JANUARY-SEPTEMBER 2021

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CASTELLUM

# Intense pace of investment and increased Nordic expansion

## Important events during the quarter

On 2 August, Castellum announced its plans to submit an offer to Kungsleden's shareholders to acquire all shares in the company. At that point in time, the total value of the offer was estimated at approximately SEK 27 billion. The offer period began in late September and is expected to run through the end of October.

In the third quarter, Castellum acquired a 23,929,430 shares in the Norwegian listed property company Entra at an average price of NOK 209 per share. This means that Castellum's ownership at the end of the period totalled 31.5%. The holdings in Entra thus change their character, as regards reporting, from financial holdings to an associated company in Castellum.

During the quarter, Castellum sold 17 properties in Stockholm, Öresund, Norrköping and Västerås to Oscar Properties. The sale price is SEK 1.7 billion less overheads and deferred tax totalling approximately MSEK 95.

The Board of Directors of Castellum appointed Jakob Mörndal as acting CEO, to take office on 8 October. He succeeds Henrik Saxborn, who announced his departure from the company in April after more than eight years in the position. After the planned combination of Castellum and Kungsleden the intention is to appoint Biljana Pehrsson, current CEO of Kungsleden, as CEO of Castellum.

**Front page:** WorkOUT® is Castellum's popular concept for outdoor offices. It is a healthy complement to the regular office, with ergonomically designed and activity-based workplaces where people can sit or stand, work alone or in groups, in the sun or in the shade. Naturally, with full access to electricity and WiFi.

*This is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original, the latter shall prevail.*

- Income for the period January–September 2021 totalled MSEK 4,437 (4,488).
- Income from property management amounted to MSEK 2,503 (2,588), equivalent to SEK 9.14 (9.48) per share – a change of –4%.
- Change in value on properties amounted to MSEK 4,531 (816) and on derivatives to MSEK 191 (–212).
- Net income for the period amounted to MSEK 7,064 (2,549), corresponding to SEK 25.79 (9.33) per share.
- Long-term net reinstatement value (EPRA NRV) amounted to SEK 230 per share (200), an increase of 15%.
- Net investments amounted to MSEK –3,374 (1,996) of which MSEK 8,846 (317) pertained to acquisitions, MSEK 2,488 (1,800) to new construction, extensions and reconstructions, and MSEK 14,708 (121) to sales. Moreover, SEK 11.7 billion was invested in the Norwegian listed property company Entra.
- Net lettings for the period were MSEK 93 (191).

## KEY METRICS

	2021 Jul-Sep	2020 Jul-Sep	2021 Jan-Sep	2020 Jan-Sep	2020 Jan-Dec
Income, MSEK	1,501	1,489	4,437	4,488	6,004
Net operating income (NOI), MSEK	1,060	1,122	3,094	3,292	4,335
Income from property management, MSEK	888	899	2,503	2,588	3,380
NOI SEK/share	3.26	3.29	9.14	9.48	12.35
NOI growth	–1%	+8%	–4%	+9%	+7%
Net income after tax, MSEK	1,514	1,015	7,064	2,549	5,615
Net investment, MSEK	5,612	618	–3,374	1,996	4,267
Net lettings, MSEK	27	–9	93	191	239
Loan-to-value ratio <sup>1)</sup>	36%	41%	36%	41%	41%
Interest coverage ratio	572%	581%	545%	545%	530%
EPRA NRV, SEK/share	230	200	230	200	214
EPRA NTA, SEK/share	221	191	221	191	205
EPRA NDV, SEK/share	187	157	187	157	168

1. The definition of loan-to-value ratio has been amended to adapt the key metric to investment in financial assets (Entra holding). The new definition is net interest-bearing liabilities in relation to total assets. The comparative figures have been restated.

## Rapid business tempo during the third quarter of the year

I am writing these comments in my role as acting CEO after Henrik Saxborn stepped down as CEO in early October. I expect that my time as acting CEO will be limited to the point at which a combination with Kungsleden will hopefully become reality.

The third quarter means a continued rapid pace of investment, where our offer for Kungsleden was the single most important event.

### **The Nordic region's largest listed commercial property company**

Castellum's strategy is to be the Nordic region's leading listed commercial property player, with a focus on the most attractive growth regions. We will do this by concentrating our portfolio on regional Nordic growth centres, with a focus on offices and logistics, and ensuring a financial position that involves the greatest possible scope for action. Including our exposure to the Norwegian property market via the holdings in Entra, a combination with Kungsleden would create a Nordic player with a property value of approximately SEK 165 billion.

Our Nordic expansion continued during the quarter with the acquisition of the Finnish company Kielo, with properties in Finland's key growth centres and in the country's fastest-growing university towns. We have also expanded our exposure to Norway by further increasing our ownership in Entra, where we reached 31.7% of the votes and the capital after the end of the quarter.

### **Strong underlying business**

Our underlying business is strong, and we are experiencing a healthy rental and property market, which our net lettings and robust increase in value from the last quarter in particular

testify to. The trend we experienced and announced back in Q2 has thus continued. This, together with a rapid pace of investment in the third quarter (apart from our offer for Kungsleden) – corresponding to an investment volume of SEK 14 billion – bodes well for continued cash-flow growth and a strong finish to the year. We therefore still see no clear negative impact from the pandemic in our business, and will continue to develop our offering in order to meet a transitioning office market over the long term.

The focus of the property portfolio on growth regions, a broad and highly diversified customer basis with a large element of government agencies and departments and a strong balance sheet with an unchanged financial policy are the conditions behind Castellum's rating, which in turn facilitates attractive financing terms and an expanded investor base. The combined company will continue to focus on creating shareholder value and reaching our long-term goal of increasing income from property management per share by 10% annually, while maintaining a dividend of at least 50% of income from property management.

### **With sustainability in focus**

Castellum continues to be an industry leader in sustainability. As proof of this, we have been rated as a world leader in the Office/Industry category (95 points out of 100) in the Global Real Estate Sustainability Benchmark (GRESB) sustainability assessment for the sixth year in a row. In addition, we were named the world's best and most sustainable project developer of offices, according to the GRESB study (99 points out of 100).

### **Jakob Mörndal**

Acting CEO



*“Our underlying business is strong, and we are experiencing a healthy rental and property market, which our net lettings and robust increase in value from the last quarter in particular testify to.”*

## Proposed combination between Castellum and Kungsleden

On 2 August 2021, Castellum submitted a recommended public offer to the shareholders of Kungsleden to acquire all the shares in the company with the intent to combine the two companies. The combination of Castellum and Kungsleden will create significant value for all stakeholders, where the company's size, strong balance sheet and retained financial strength will result in strengthened competitiveness.

The remuneration in the Offer comprises a combination of shares in Castellum and cash, where each shareholder in Kungsleden is offered 70% of the shares in Castellum (0.525 shares in Castellum per Kungsleden share) and 30% cash (SEK 121 per share in Kungsleden). Castellum is offering Kungsleden's shareholders a "mix and match" opportunity through which each shareholder in Kungsleden can choose either to retain as much share remuneration as possible or as much cash remuneration as possible for their shares in Kungsleden, provided that a 70/30 division is achieved on the whole. This means that for one shareholder to receive more of a particular desired remuneration, other shareholders must thus have made the opposite choice to an equal extent.

The Board of Directors of Kungsleden has unanimously recommended accepting the Offer to Kungsleden's shareholders. The recommendation was supported by a fairness opinion from Handelsbanken Capital Markets. Furthermore, the three largest owners, corresponding to 26% of the capital and votes outstanding in Kungsleden, have signed binding commitments to accept the Offer. Since the publication, Castellum has also acquired Kungsleden shares in the market corresponding to 9.9% of votes and shares outstanding.

Through a combination with Kungsleden, Castellum will strengthen its position as the Nordic region's leading listed commercial property player with a focus on the most attractive growth regions in Sweden, Finland and Denmark as well

as indirectly in Norway (through Castellum's ownership in Entra). Kungsleden's and Castellum's respective portfolios complement each other well, and strengthen their positions in their respective prioritised markets. At the same time, the combination will achieve greater risk spread as a result of a broader customer base. For the purpose of facilitating focus on priority growth cities, the sale of properties in lower-priority areas is planned after the combination. The joint property portfolio comprises primarily offices and warehouse/logistics, where the former segment has a large element of government agencies and departments.

The property industry is in a phase of change, where size together with sustainable and innovative service development is playing a greater role. A player is now being created with a property value of SEK 140 billion based on the Q2 reports of the respective companies (approximately SEK 165 billion including Castellum's share of Entra's property portfolio and transactions in Castellum completed after Q2) combined with a healthy balance sheet, which together with a maintained rating facilitates attractive financing terms and thereby strengthened competitiveness. The combined company will continue to focus on creating shareholder value and reaching Castellum's long-term goal of increasing income from property management per share by 10% annually, while maintaining a dividend of at least 50% of income from property management.

A new, larger company will enable synergies of approximately SEK 285 million on an annual basis, divided into SEK 185 million in operational and administrative synergies and SEK 100 million in financial synergies. The operational and administrative synergies will be found in operation, administration and development. Both Kungsleden and Castellum are leaders in sustainable energy use and efficient property

operation, which is why the combination will create conditions for implementing further reductions in operating property costs. In property management, transactions, project development and administration, the operations are strengthened while opportunities also arise to increase efficiency through exchange of know-how, efficiency enhancements and economies of scale. These synergies are expected to be realised within two to three years.

The financial synergies can be achieved by gradually refinancing Kungsleden's outstanding loans based on Castellum's higher credit rating.

The Offer is not contingent on financing.

### TIMETABLE, INDICATIVE

30 September	The offer period begins
29 October	The offer period ends
1 November	The acceptance rate of the offer is published
4 November	Liquid settlement of the offer takes place

# Market comments

## Swedish, Danish and Finnish economies

Economic activities in 2021 accelerated substantially compared with the negative trend during most of 2020. Growth in the domestic economy is high, driven primarily by increasing consumption and investments. Nonetheless, unemployment in Sweden is expected to rise slightly (to approximately 8.8% in 2021) to subsequently fall to just over 7% in 2022. Sweden's GDP for full-year 2020 fell nearly 3% but is expected to rise drastically and peak (+4.7%) in 2021, after which growth is predicted to decline somewhat to +3.6% in 2022 (Riksbank, September 2021). Low interest rates and very robust monetary policy and fiscal measures have continued to play a part in supporting the financial markets.

The development of the Swedish krona exchange rate has a substantial role in the inflation trend in Sweden – a weak exchange rate normally contributes to higher inflation. In 2021 to date, the krona has traded within a relatively narrow range – 10-10.30 against EUR – after having strengthened in the second half of 2020. According to the Riksbank (September 2021), inflation – expressed in terms of CPIF – was +0.5% in 2020 and is expected to rise to approximately +2.3% in 2021 and +2.1% in 2022.

Following a negative 2020, the Danish and Finnish economies have also recovered substantially as a result of finance policy measures and the favourable effects of a highly expansive monetary policy. The primary scenario for Denmark is that GDP will increase 3.8% in 2021 and 3.1% in 2022 while unemployment will decrease. It is believed that the inflation rate will end up at +1.5% in 2021 and +1.7% in 2022 (Danmarks Nationalbank, September 2021).

In Finland, it is believed that GDP will increase by 3.5% in 2021 and 2.8% in 2022 while unemployment will decrease. It is believed that the inflation rate in 2021 will be +1.9% (Bank of Finland, September 2021).

## MACRO INDICATORS – SWEDEN

Unemployment	8.9%	August 2021
Rate of inflation	2.1%	(August 2021 compared with August 2020)
GDP growth	0.9%	Q2 2021 compared with Q1 2021

Source: Statistics Sweden

## Rental market

In the locations where Castellum conducts operations, the market has shown resilience to the ongoing pandemic and demonstrated stable market rents.

In Stockholm and Malmö, office vacancy rates stabilised in the respective CBDs. Over the short term, the offering of new construction will remain limited and primarily be let in advance.

Some continued pressure has been noted in the Gothenburg CBD rental market owing to large new production volumes.

In the Helsinki CBD, stabilised office vacancy rates were noted during the quarter. Strong demand has spread from the CBD to the surrounding areas. However, there is a high vacancy rate in secondary areas and properties.

A stabilisation in the office vacancy rate was also noted in the Copenhagen CBD during the quarter. A high level of access to land is a limiting factor for rent potential.

The rental market in Sweden for warehouses/logistics spaces remained positive during the period, with stable to rising rents in prime logistics locations, particularly in semi-central locations with good means of transportation and sorting yards (last-mile locations).

## Interest and credit market

In December 2019, Sweden's Riksbank raised interest rates from –0.25% to zero. The Riksbank's latest repo-rate path (September 2021) still indicates that the repo rate will remain at zero through at least the end of 2024.

Swedish long-term interest rates (expressed here as a five-year swap rate) have ranged between +0.1% and +0.5% to date this year, which is slightly higher than in 2020. At the end of the third quarter of 2021, the level was +0.5%, which was approximately 40 basis points higher than at the end of the preceding year. Current levels remain historically very low.

To date in 2021, access to financing – primarily in the euro market, but to some extent also in the Swedish capital market – has been excellent, despite a tendency in the offering of property-related borrowing to continue to increase. Credit spreads remained relatively stable to date this year and are at historically advantageous levels for borrowers.

In Denmark, the CIBOR 3m rate has remained in the range of –0.2% to –0.3% to date during 2021. EURIBOR 3m was also stable, at –0.55%.

## Property market

The volume for transactions over MSEK 40 in the transaction market in Sweden is estimated to have amounted to approximately SEK 234 billion (-106) over 507 transactions (281) from January to September 2021.

Sentiment among investors in the Swedish property market remains strong, and there is a great deal of interest in and plenty of capital for property investments.

The share of foreign investors from January to September 2021 was approximately 12% (31). The Nordic property market remains attractive to international investors, but the percentage is low from a historical perspective owing largely to structural transactions in Sweden.

In Castellum's markets, the required yield for office properties was either stable or fell during the period. A number of comparative transactions were completed during the quarter at extremely strong levels, which indicates healthy demand for the best products in all property segments.

Warehouse and logistics properties continue to attract domestic and international investors, driven by the growth of e-commerce. The short supply of attractive logistics properties, in combination with high demand, has resulted in falling required yields.

In Denmark, the transaction volumes totalled approximately DKK 71 billion (-36) from January to September 2021. The mood among investors remains strong. The required yield for offices in the CBD is assessed as remaining stable at 3.5%.

In Finland, the transaction volumes totalled approximately EUR 4.4 billion (-3.4) from January to September 2021. Among investors, there is considerable demand for the most attractive objects, and the required yield for offices in the CBD in Helsinki is estimated at 3.4%, which is roughly on a par with Stockholm.

In all, this shows a strong property market that has had a great deal of resistance to the negative effects of the coronavirus crisis.

# Castellum's agenda for the sustainable city

KEY METRICS - SUSTAINABILITY	2021 Q3	2020	2019	2018	2017	Targets
<b>Resource efficiency</b>						
Total energy use, kWh/sq. m., year	85 <sup>1)</sup>	75	88	97	94	
Total energy use, degree-day corrected, kWh/sq. m., year	90 <sup>2)</sup>	87	95	103	100	Max 89 kWh/sq. m. in 2021, and 80 kWh/sq. m. in 2025 (22% reduction 2025 cf. with 2015)
1. of which actual heating	60	50	60	64	64	
2. of which degree-day corrected heating	65	62	67	70	70	
3. of which electricity and cooling	25	25	28	33	30	
Energy savings per year in the like-for-like portfolio, rolling 12 months, % (degree-day corrected)	-3%	-12%	-8%	3%	-6%	-2.5% energy savings/year in the like-for-like portfolio
Energy savings per year in the like-for-like portfolio, rolling 12 months, % (actual energy use)	1%	-11%	-9%	3%	-7%	
Total water use, m <sup>3</sup> /sq. m., year	0.2	0.3	0.3	0.3	0.3	
Water savings per year in the like-for-like portfolio, rolling 12 months, %	-14%	-13%	-3%	-1%	-4%	1% water conservation/year in the like-for-like portfolio
<b>Fossil-free</b>						
Share of non-fossil energy	96%	95%	96%	95%	95%	100% fossil-free energy by 2030
Fossil fuel-free vehicles, %	100%	100%	86%	62%	34%	100% fossil fuel-free vehicles
No. of charging posts for electric vehicles	730	—	—	—	—	New measurement point, 2021
No. of large solar cell facilities installed	42	39	26	22	16	100 solar cell installations by 2025
<b>Road map to climate neutrality by 2030</b>						
Property management - CO <sub>2</sub> emissions in kg/sq. m., year (market-based) <sup>3)</sup>	1.2	1.0	1.5	1.2	1.7	1.2 kg/sq. m. 2021 and 0 kg/sq. m. 2030
of which Scope 1	0.1	0.1	0.1	0.2	0.3	
of which scope 2 - market-based	1.1	0.9	1.4	1.0	1.4	
of which scope 2 - location-based	4.5	4.1	8.8	11.3	11	
Project Development - Reduced emissions in project development portfolio (scope 3), %	15%	—	—	—	—	New target from 2021. 15% reduction in CO <sub>2</sub> emissions per sq. m. in new production of offices
<b>Environmental certification</b>						
Environmental certification, % of sq. m.	46%	39%	36%	33%	29%	50% certified area by 2025
Environmental certification, no. of properties	193	202	164	141	129	
Environmental certification, % of rental income	58%	52%	47%	43%	39%	
Environmental certification, % of property value	60%	55%	51%	48%	43%	
<b>ESG benchmarks</b>						
GRESB points (0-100)	95	91	92	92	95	Global Sector Leader 2021, GRESB, received 15 October 2021
DJSI points (0-100)	TBD	81	79	73	72	Marks for 2021 will be received first during Q3-Q4 2021
CDP mark (A to D-)	TBD	A	A-	B	A-	Marks for 2021 will be received first during Q3-Q4 2021
<b>Social key metrics</b>						
Sick leave, % (long-term and short-term)	2.1%	2.2%	2.9%	3.8%	2.0%	Max 2% short-term and 3% long-term sick leave
Equality, % women and men	43%/57%	40%/60%	39%/61%	42%/58%	38%/62%	Between 40-60%
Diversity, international background, %	8%	8%	6%	6%	No measurement	20% 2025
Apprentices, % of employees	2%	2%	5%	6%	4%	4% per year

Castellum will be one of the most sustainable property companies in Europe. The company's sustainability agenda, "The sustainable city," is divided into four areas of focus: The Planet, Future-Proofing, Well-Being and Social Responsibility. These areas of focus ensure that operations are conducted responsibly, creating long-term solutions from an economic, ecological and social perspective.

For more detailed information, refer to Castellum's Annual Report for 2020.

1. The increase in total energy consumption compared with 2020 is due primarily to the portfolio shift that took place in 2021, and a colder year compared with 2020 resulting in increased heating.

2. The small increase in the degree-day corrected energy consumption is due primarily to the portfolio shift that took place in 2021. Castellum's actual enhancements to energy efficiency in the like-for-like portfolio can be seen further down in the table and totals 3% savings per square metre, rolling 12 months.

3. This list includes all CO<sub>2</sub> emissions from property management (i.e. scopes 1 and 2). Detailed information on Castellum's CO<sub>2</sub> emissions and complete Scope 3 emissions outside of property management can be found in the 2020 Annual Report on page 168. Total energy consumption is the sum of 1 and 3. Total normalised energy use is the sum of 2 and 3.

**CERTIFIED PROPERTIES, EXCLUDING PROJECTS AND LAND**

MSEK	Offices	Public sector properties	Warehouse/ Logistics	Light industry	Retail	Total	Share of property management portfolio
Rental income	1,284	568	264	22	152	2,290	58%
Direct property costs	-261	-91	-44	-5	-19	-420	51%
of which							
1. Operating costs	-130	-49	-32	-3	-8	-222	47%
2. Maintenance	-21	-10	-4	-1	-2	-38	44%
3. Property tax	-110	-32	-8	-1	-9	-160	63%
<b>Net operating income</b>	<b>1,023</b>	<b>477</b>	<b>220</b>	<b>17</b>	<b>133</b>	<b>1,870</b>	<b>59%</b>
Property value	34,030	13,738	6,595	480	3,146	57,989	60%
New construction, extensions and reconstructions	273	67	83	1	24	448	46%
Lettable area, 1,000 sq. m.	763	388	354	25	122	1,652	46%
No. of properties	77	35	36	6	20	174	35%

**EU TAXONOMY - PRELIMINARY GUIDANCE, THIRD QUARTER 2021**

MSEK	EPC A	EPC B	EPC C	Total	Share of property management portfolio
Rental income	142	456	981	1,579	40%
Direct property costs	-23	-84	-193	-300	37%
of which					
1. Operating costs	-12	-46	-106	-164	34%
2. Maintenance	-2	-5	-21	-28	33%
3. Property tax	-9	-33	-66	-108	43%
<b>Net operating income</b>	<b>119</b>	<b>372</b>	<b>788</b>	<b>1,279</b>	<b>41%</b>
Property value	2,841	11,865	22,494	37,200	38%
New construction, extensions and reconstructions	12	31	168	211	22%
Lettable area, 1,000 sq. m.	123	407	877	1,407	39%
No. of properties	13	51	110	174	35%

**Environmental certifications and the EU Taxonomy**

Certified properties pertains to the portfolio held at the end of the period as if they have been owned for the entire period. Moreover, land and development properties have been excluded. The same method has been applied to the figures of the EU Taxonomy.

As regards the EU Taxonomy, only preliminary data is presented to provide guidance based on Castellum’s current knowledge of which key metrics will govern investment properties. For buildings constructed prior to 31 December 2020, it has been brought to the company’s attention that the governing criteria are expected to be Energy Performance Certificate (EPC) ratings A or that the building has a primary energy use among the top 15% of the most energy efficient in the country. In Sweden, all buildings with A, B and occasionally C ratings are assessed as being among the top 15% of the most energy-efficient, which is why properties with A, B and C ratings are regarded as green assets under the EU Taxonomy in our preliminary guidance. For buildings with an EPC rating of C, Castellum has assumed a limit value of a calculated primary energy consumption of lower than 100 kWh per square metre and year if these are to be included in the top 15%.

For new production built after 31 December 2020, the requirement is 10% better than nearly zero-energy buildings (NZEB), which means 10% better than the energy requirement under the building regulations of the National Board of Housing, Building and Planning (BBR in Swedish), which in turn speaks for the fact that the absolute majority of Castellum’s new production going forward will meet EU Taxonomy requirements. This is provided that all Do No Significant Harm (DNSH) criteria have been met. Based on current knowledge, this means that under the Taxonomy it will be easier for new production to meet the criteria than for an existing building according to the manner in which the current EPC ratings levels are designed in Sweden.

Castellum has assumed that all rental income, investment and operating costs that are associated with a given economic activity have the same classification as the economic activity. If, for example, a property has the “green” classification under the EU Taxonomy, all rental income, investment and operating costs will also be classified as green.



Castellum continued to receive international recognition for its sustainability efforts. The awards are proof of the company’s strong position in sustainability, creating continued drive for leading development in the industry.