

ODIN Eiendom (ODIN Fastighet) 28/02/2025

The fund features the unit classes in SEK, NOK and EUR: A, B, C, D

FUND COMMENTARY

ODIN Eiendom and the real estate sector had marginally negative returns in February. We continue to experience large fluctuations in real estate stocks, largely driven by movements in interest rates. President Trump's statements and threats of new tariffs and various sanctions against trading partners are contributing to increased volatility on stock markets around the world and have created a "risk-off" sentiment in the market. This is reflected not least in the yield on the US 10-year Treasury bond, which has fallen by almost 35 basis points in February.

Strong growth in profit from property management in the fourth quarter

Although market capitalizations for our companies continue to fluctuate, the reports for the fourth quarter show strong fundamentals and robust balance sheets. This provides good opportunities for both dividends and future expansion. In the fourth quarter, rental income increased by 9 percent compared with the previous year. The positive development is due to a combination of a high indexation of leases of 5-6 percent in Sweden and expansion of the property portfolio through acquisitions and completed projects.

Profit from property management for the companies in the portfolio increased by a median of as much as 30 percent, driven by strong growth in rental income and good cost control. In addition, lower interest expenses have played a significant role. The money market rate in Sweden (STIBOR 3M) fell from 4.0 per cent in December 2023 to 2.5 per cent in December 2024 and further to 2.3 per cent at the end of February this year. Cash flow per share increased by 13 percent, as more companies raised capital through new issues to finance acquisitions and projects, as well as reduce loan-to-value ratios.

Overall, the fourth quarter reports were good, despite a slight increase in the vacancy rate. However, we believe this is manageable, as the new supply is likely to remain low in the coming years due to low investment levels since 2022. Our companies have strong positions in their core markets and we expect increased market share to come through transactions rather than new projects. This also helps to limit the increase in supply.

The importance of a clear capital allocation discipline

We prefer companies that can reinvest their cash flow in projects or transactions where returns exceed their required rate of return. This drives maximum growth in value creation per share in the long term. At the same time, we like companies with good capital allocation discipline, where excess capital is either reinvested efficiently or distributed to shareholders through buybacks or dividends. We prefer that surplus capital is distributed directly to shareholders, rather than being accumulated in the company at a low interest rate. This gives us as shareholders the opportunity to allocate our equity to the investments that we believe will provide the best returns.

The dividend yield in the fund is currently 1.2 percent, which is an increase from the previous year, when dividends often were withheld due to uncertainty related to the interest rate environment. The companies in ODIN Eiendom now have a weighted interest coverage ratio of 2.6 times and a net debt to operating income before depreciation and amortization ratio of 10.3 times, giving them a solid financial position for expansion and dividend capacity.

When it comes to capital allocation, our advice to companies that trade at a significant discount to net asset value and a low cash flow multiple is to buy back shares. This is the best way to signal to the market that management has strong faith in the company's underlying values and future value creation. At the same time, it gives shareholders an opportunity to increase their ownership without having to buy more shares themselves.

Good start to the year for the transaction market

We are only a little over two months into the new year, but the transaction statistics for January show a very positive start for the transaction market. The transaction value has increased by 17 percent compared to the previous year and amounted to EUR 1.7 billion in 130 transactions. We believe in good growth in Sweden, where real interest rates are close to zero and real estate tends to do well in such an environment. We expect the strong transaction market to continue as favourable financing costs now enable more transactions.

Portfolio Manager:



Nils Hast

Why invest in the fund?

By investing in ODIN Fastighet, you can take part of the value creation in the listed Nordic real estate market. The goal is to achieve a competitive return in relation to the risk in the companies we invest in. General fluctuations on the stock market affect the pricing of the portfolio. As we perceive it, these fluctuations are often significantly greater than the fluctuations in property values. In such situations, we try to take advantage of the fluctuations to create value in the portfolio.

How is the fund positioned?

The fund primarily invests in commercial properties on the Nordic market. All investments are made in listed companies that own various types of real estate such as offices, hotels, shopping centers and warehouses. The fund has the most square meters in offices. Warehouse and logistics form a significant part and together these segments make up over half of the portfolio. Trade, housing, hotels, etc. are also represented in the fund.

Geographically, around 80 percent are invested in Sweden and around 20 percent in Norway and Finland. We are looking for companies that have shown good growth and return on capital over time in combination with low financial risk, good prospects and also preferably a low share price in relation to earnings and cash flow.