

# Year-end report

Quarter

4

1 January - 31 December 2018

## Completion of new buildings boosts net operating income

Akademiska Hus reports an increase in net operating income for 2018 compared with the previous year and increased profit before changes in value and tax. During the year the Company adopted ambitious new climate targets - a vision for a zero carbon footprint.

Read more in the Statement by the President on page 3.

### Key events during the quarter

- Akademiska Hus has developed an array of ambitious targets to be able to contribute to a climate-neutral society and recently adopted a vision for a zero carbon footprint. The vision will be achieved through climate-neutral internal operations and property operations by 2025 and climate-neutral project operations by 2045.
- Akademiska Hus decided to invest approximately SEK 460 million in renovating the M-building in Lund to convert it into an attractive study and research environment that is sustainable and in which students and researchers can meet. The 24,400 square-metre project is expected to begin in late 2019, with completion in June 2022.
- In November the new climbing facility that Akademiska Hus built at the IKSU sport athletic centre on the Umeå Campus held its grand opening. The facility, which is called Lofoten, will contribute to the long-term development of climbing as a sport for all of Norrland. Along with IKSU's other activities, it represents an important aspect of the university city and is an important piece of the puzzle for Umeå University as a sport science university.
- At the Albano Campus in Stockholm 70,000 square metres of new university facilities and 1,000 housing units for undergraduate and graduate students, as well as parks, stores and restaurants are under construction. The area will be the first campus environment in Sweden to qualify for certification according to Citylab standards, thereby standing out as an urban development project at the absolute cutting edge of sustainability.

### Financial information

#### FULL-YEAR

- Rental revenue was SEK 5,928 million (5,582).
- Net operating income totalled SEK 3,938 million (3,829), an increase of SEK 109 million attributable to completion of new buildings.
- Profit before changes in value and tax was SEK 3,592 million (3,574).
- Unrealised changes in property values totalled SEK 2,585 million (4,979), corresponding with 3.0 per cent (6.2) of the value of the properties.
- The total financing cost was SEK -628 million (-430), including a total of SEK -268 million (-188) in net interest income.
- Profit before tax for the year amounted to SEK 5,818 million (8,311) and profit for the year was SEK 5,314 million (6,453). The reduction is mainly attributable to lower changes in property values.
- Investments in redevelopment, extensions and new construction during the period totalled SEK 2,842 million (2,555).
- The yield (excluding properties under construction) was 5.0 per cent (5.4).
- The Board of Directors proposes a dividend of SEK 1,663 million (1,630) to the 2019 Annual General Meeting.

#### FOURTH QUARTER

- Rental revenue was SEK 1,480 million (1,392).
- Net operating income was SEK 819 million (836), a reduction of SEK 17 million.
- Profit before changes in value and tax was SEK 702 million (787).
- Unrealised changes in property values totalled SEK 1,786 million (1,395).
- Net interest income amounted to SEK -93 million (-29).
- Profit before tax was SEK 2,517 million (2,083).



AKADEMISKA HUS

# This is Akademiska Hus

Akademiska Hus' remit is to own, develop and manage properties for colleges and universities. Our operations will be run on a commercial basis and generate a yield that is in line with the market.

Akademiska Hus is wholly owned by the Swedish state and can be found throughout Sweden, primarily in the major university towns, but also in several smaller college towns.

We build and manage sustainable knowledge environments in close cooperation with colleges and universities. We help to strengthen the competitiveness of Swedish centres of education, where student accommodation plays a major role in campus development. There are many property owners in the segment of premises for higher education and research, but with its expertise, Akademiska Hus is the largest with a market share of about 60 per cent.

## CREDITWORTHY TENANTS AND LONG-TERM CONTRACTS

The majority of Akademiska Hus' revenue, approximately 90 per cent, comes from colleges and universities. Since they are government agencies, this customer group has the highest credit rating available.

To meet customer needs, we often invest in specially adapted premises, which results in long lease terms. The average lease term during the year for all newly signed leases was 10.5 years (10). The average remaining lease term is 6.5 years (6). The financial vacancy rate accounts for 1.7 per cent (0.9) of our total rental revenue.

The vacancy rate regarding rentable space is 5.2 per cent (4.2).

One reason for the relatively low vacancy rate is that new projects generally are not initiated until contracts are signed.

## LONG-TERM FINANCING

Cash flow from current operations is for the most part reinvested in new construction as well as in redevelopment and extensions of existing holdings. The liability portfolio is financed via public financing programme and primarily in the bond market. Akademiska Hus has had a long-term rating from Standard & Poor's of AA since 1996 and the highest short-term rating of P-1 from Moody's since January 2017. These ratings reflect the state ownership, our strong financial position and our market position as the leader in knowledge environments for Swedish colleges and universities.

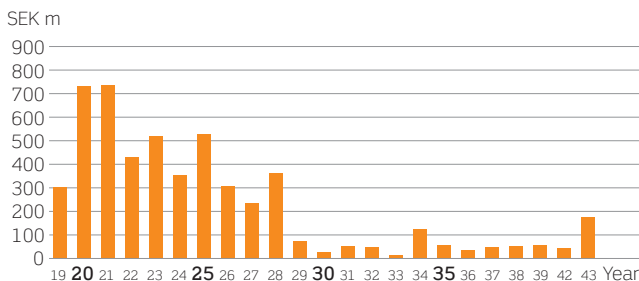
# P-1

Moody's short-term rating,  
January 2019

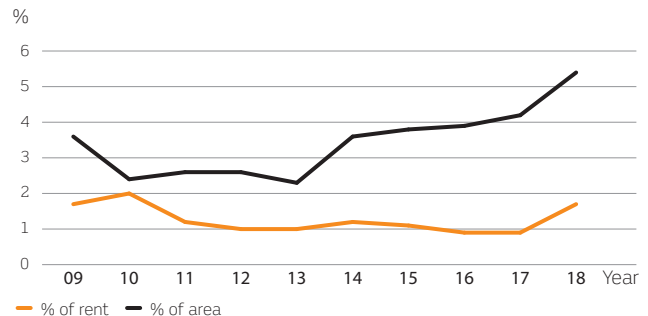
# AA

Standard & Poor's long-term rating,  
Stable outlook. September 2018

## MATURITY STRUCTURE ON LEASES



## VACANCY RATE SOMEWHAT INCREASED FROM LOW LEVELS



## AKADEMISKA HUS IN BRIEF

	2018 Oct.-Dec.	2017 Oct.-Dec.	2018 Full-year	2017 Full-year	2016 Full-year
Income from property management, SEK m	1,528	1,449	6,117	5,806	5,666
Net operating income, SEK m	819	836	3,938	3,829	3,667
Profit before tax, SEK m	2,517	2,083	5,818	8,311	6,715
<b>Values as at 31 Dec. 2018</b>					
Equity ratio	45.8	43.3	45.8	43.3	41.4
Return on operating capital, %	*	*	5.5	5.9	6.2
Return on equity, %	*	*	11.2	17.6	16.3
Interest coverage ratio, %	*	*	736	871	694
Loan-to-value ratio, %	34.7	34.3	34.7	34.3	37.0
Yield, properties, % <sup>1</sup>	*	*	5.1	5.5	5.7
Yield, properties, % <sup>2</sup>	*	*	4.7	5.0	5.3
Assessed market value, properties, SEK m	85,865	80,444	85,865	80,444	73,013

\* Key figures are calculated only for the twelve-month period

1) excluding properties under construction and expansion reserves 2) including properties under construction and expansion reserves

## OWNER'S FINANCIAL OBJECTIVES:

- Return on operating capital should be at least 6.5 per cent (excluding change in value).
- The dividend should be between 40 and 60 per cent of the profit for the year after tax, after reversal of changes in value and with related deferred tax.
- The equity ratio should be between 30 and 40 per cent.

Two of the owner's three financial objectives were not achieved. This is exclusively attributable to the large changes in market value because our property holdings are recognised in accordance with IFRS regulations. These changes in market value have a negative impact on the performance measures and have prevented us from achieving our financial objectives.

# Our vision for zero carbon footprint

## PRESIDENT KERSTIN LINDBERG GÖRANSSON COMMENTS:

Biomedicum, our largest construction project ever, was commissioned during the year. This contributed to an increased net operating income of SEK 3,938 million, compared with SEK 3,829 million the previous year. During the year we had positive changes in value of SEK 2,585 million, which along with investments during the year resulted in a property value of SEK 86 billion. The changes in the value of the property portfolio are lower than the previous year, resulting in a drop in profit for the year to SEK 5,314 million, compared with SEK 6,453 million the previous year.

### NEW TARGETS FOR CLIMATE NEUTRALITY

The climate issue continues to be one of the most important challenges for society. The UN climate report published in late 2018 put new light on the issue. As one of Sweden's largest property companies, we have a clear opportunity to contribute to a positive trend regarding climate emissions. During the year we adopted ambitious new climate targets – a vision for a zero carbon footprint. Our property operations and our internal operations will have reached the target by 2025. The more complex construction project operation is progressing according to the roadmap of the Construction and Contracting industry and the target is to reach a climate-neutral value chain by 2045. Investments in solar panels contribute to this target. Our 40 solar parks generate over 2.5 million kWh of sustainable electricity annually at Swedish centres of education. In 2019 we will take further measures by installing more solar power facilities to increase capacity to 5 million kWh per year.

### FIRST CAMPUS ON THE WAY TO BEING CERTIFIED TO CITYLAB STANDARDS

We are now working with our customers to give our development and sustainability initiatives an additional boost. One good example is the growing Albano Campus in Stockholm. In all, 70,000 square metres of new university facilities, 1,000 housing units for undergraduate and graduate students, along with park environments, stores and restaurants, will be built here. The area will be the first campus



Biomedicum, one of the largest research labs in Europe, was completed for Karolinska Institutet in 2018. This construction project – the largest ever undertaken by Akademiska Hus – was completed ahead of schedule and under budget.

environment to qualify for certification according to Citylab standards, thereby standing out as an urban development project at the absolute cutting edge of sustainability.

Also driving progress is the expanded collaboration initiative between Akademiska Hus and the Royal Institute of Technology (KTH), where we have signed a memorandum of intent to strengthen our long-term strategic collaboration in education, research and innovation. Another exciting example is the cooperative agreement with Örebro University – “Örebro Campus Lab” – where the goal is to work together to make the university the most digitalised centre of education in Sweden.

### STRATEGIC PLAN TO 2021

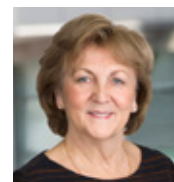
Like others in the property industry, we face major challenges. This includes digitalisation that affects the entire society, the climate challenge and other global external factors. To deal with these challenges we formulated a new strategy during the year: “collaboration in the development of future knowledge environments”. We will work at a faster pace with our customers, as well as with other players, to develop innovative solutions for more efficient operations, improved basic delivery and future-oriented knowledge environments. We already have about 20 innovation projects underway, including many driven within the framework for the construction of A Working Lab on the Chalmers Campus in Gothenburg. Another example is the approximately SEK 100 million we are investing in a meeting place for innovation in life science on the Solna Campus. The renovated building will provide the campus with a long-awaited

gathering point where students, researchers, visitors, businesspeople and startup companies can meet for knowledge-sharing, development and innovation.

### STRONG DEMAND FOR STUDENT ACCOMMODATION AND KNOWLEDGE ENVIRONMENTS

During the year 227 students moved in to our newly built student housing at KTH in Stockholm as a result of our efforts to contribute to more student housing. We also decided to invest about SEK 200 million in the construction of 130 housing units on the Ultuna Campus in Uppsala. In addition, we submitted a plan application for 600 new student housing units in Lund. Construction of approximately 200 on-campus student housing units in Luleå is also underway right now.

In 2018 we took major steps regarding our level of ambition in a number of areas. We will strengthen our basic delivery at the same time that we take advantage of the opportunities provided by digitalisation. We will remain on the cutting edge regarding innovation and development, especially in sustainability. In order to succeed with our targets and aspirations, we are increasing collaboration with our customers and other stakeholders. Together we will develop new future-oriented solutions to streamline our operations and to generate value for Swedish centres of education.



Kerstin  
Lindberg Göransson  
President

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# Business intelligence and market analysis: Continued attractive property market

The strong economy and interest rate situation benefit the property industry. Interest in community properties continues to be strong.

## TRENDS

The beginning of 2018 was characterised by optimism about the economy. Fiscal stimulus measures in the US combined with expectations of continued interest rate hikes from the US Federal Reserve resulted in inflation expectations and caused interest rates to rise. However, sentiment in the global economy dampened during the year. Economic indicators such as the Purchasing Managers Index have generally pointed to a slowdown, albeit from high levels and indicating continued good growth. Questions have arisen regarding China's economy, where credit growth gradually dropped during the year. Ongoing trade negotiations between the US and the rest of the world, especially China, have further contributed to increased uncertainty regarding prospects for global trade and its effect on growth. The economic performance in Europe did not meet expectations and growth forecasts have been adjusted downwards. During the year formation of the government and budget negotiations with Italy, as well as Brexit negotiations have resulted in additional tensions in the eurozone. Sweden also showed some signs of a slowdown in economic activity.

## FINANCIAL MARKETS

In response to the continued strong labour market and rising wages, the Fed raised interest rates four times during the year. At the same time the Fed is continuing to reduce its balance sheet, which is also contributing to a tightening of monetary policy. Short interest rates in the US have risen during the year, but bond yields have not risen at the same pace. The yield curve is therefore extremely flat, which is associated with further uncertainty regarding growth prospects since the slope of the US yield curve has historically been a good economic indicator.

The European Central Bank (ECB) and the Riksbank have also taken steps towards a tightening of monetary policy during the year. The ECB has reduced the pace of and finally ended its bond purchasing programme. However, it has signalled that interest rates will not increase until the autumn of 2019 at the earliest, which means a continued negative policy rate in Europe. As a result of inflation expectations relating to the target of two per cent and signs of somewhat increased pressure on costs in the economy, the Riksbank raised the policy rate by 0.25 percentage points in December. Thus the Riksbank is moving ahead of the ECB, but at the same time has noted the importance of a weak SEK in its aspiration to reach the inflation target, for which reason there is still reason to believe that it will approach interest rate hikes with great caution. Bond yields in Europe and Sweden have fallen during the year, largely driven by increased concerns about growth, especially during the autumn.

## PROPERTY MARKET

The commercial property market has performed well in 2018, buoyed by the robust economy. Demand for office space is high in the major cities and regional centres, resulting in lower vacancy rates and rising rental prices. In the transaction market there is strong interest in Swedish properties and transaction volumes are about the same level as in 2017. As of 31 December the year's transaction volume amounted to SEK 153 billion (151), an increase of about one per cent compared with the previous year. With the exception of 2016, which in general was an exceptionally strong year for properties, transaction volumes have been at about the same level for four years. Domestic participants accounted for 73 per cent (77) of the transaction volume, which means that foreign investors – with a 27 per cent share (23) – assumed a more significant position than in prior years; the weakening of the SEK was likely a contributing factor. Transactions primarily involve housing and offices, which accounted for 34 per cent (26) and 23 per cent (18) of the volume, respectively. In addition, a somewhat larger portion of transactions are being carried out in major cities and regional centres compared with 2017, since the amount for the rest of the country was only 17 per cent (20) of the total volume. Despite a stronger rental market, transactions are generally occurring with unchanged yield requirements, probably because the cost of financing is expected to rise once the monetary policy normalises.

## CONTINUED STRONG MARKET FOR COMMUNITY PROPERTIES

The transaction market for community properties was somewhat cautious during the year, while it increased for new construction. Current owners are usually restrictive with respect to sales and in those cases where sales do occur, they are usually motivated by a strategy to streamline holdings and free up capital that can be reinvested. Moreover, fewer transactions involving community properties occur during election years since both sellers and buyers adopt a wait-and-see approach regarding political change.

Akademiska Hus' property holdings are primarily concentrated to Sweden's major cities and regional centres, which are markets that have generally strengthened during the year. In the sub-segment premises for higher education and research Akademiska Hus is the leader with a market share of 60 per cent. A campus is an attractive microenvironment for education, research and related activities. Demand for on-campus premises also depends on how well the campus is integrated with the city in general. Through improved infrastructure, increased supply of services and residential development, campuses can be made more attractive for both the centres of education and the business community.

# Our college and university cities

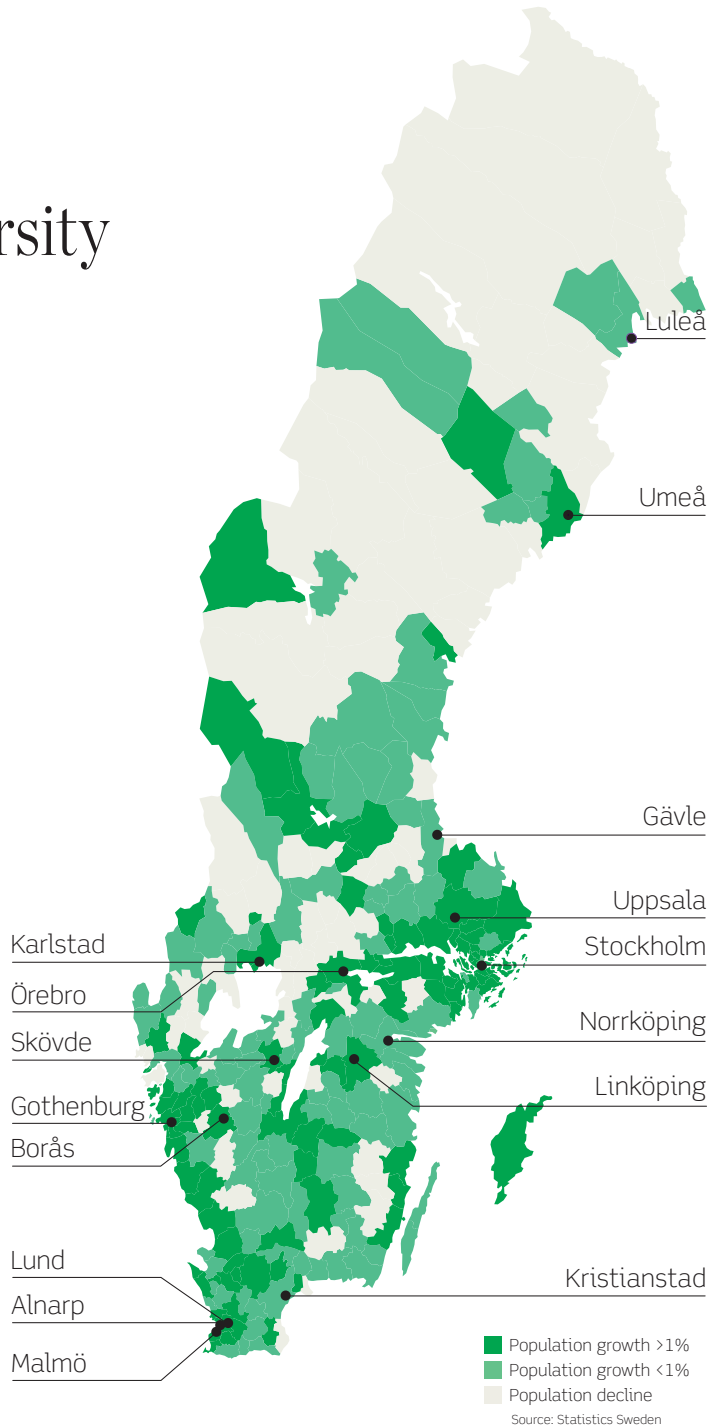
AKADEMISKA HUS CAN BE FOUND IN

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COLLEGE AND UNIVERSITY CITIES

## Presence in cities with good growth

Akademiska Hus has a 60 per cent share of premises for higher education and research, which means it is the single largest participant in this segment. The total property value of Akademiska Hus' holdings is SEK 86 billion, with 97 per cent located in university cities and 3 per cent in college towns.



Share, per city/town	Market value and area	Largest centres of education
Greater Stockholm	<b>SEK 39 billion</b> 957,000 m <sup>2</sup>	Stockholm University Karolinska Institutet Royal Institute of Technology
Uppsala	<b>SEK 15 billion</b> 604,000 m <sup>2</sup>	Uppsala University Swedish University of Agricultural Sciences, Ultuna
Gothenburg	<b>SEK 8 billion</b> 348,000 m <sup>2</sup>	University of Gothenburg Chalmers University of Technology

Share, per city/town	Market value and area	Largest centres of education
Lund	<b>SEK 7 billion</b> 358,000 m <sup>2</sup>	Lund University
Umeå	<b>SEK 4 billion</b> 236,000 m <sup>2</sup>	Umeå University Swedish University of Agricultural Sciences, Umeå
Linköping	<b>SEK 3 billion</b> 221,000 m <sup>2</sup>	Linköping University

Source: Share 2018: Swedish National Financial Management Authority

● Akademiska Hus

# Our operations

We take a long-term strategic approach to continually create attractive knowledge environments and campuses with our customers. By doing so we help the Swedish centres of education to continue to be well-positioned to attract undergraduate and graduate students from all over the world.

Our work is based on our core processes, thereby ensuring our ability to leverage our collective expertise across the country through a management organisation, a project organisation and three geographic units that are responsible for campus and business development. Efficiency, uniform processes and a strong focus on digital transformation provide a good foundation for our continued efforts to strengthen Sweden as a nation of knowledge.

## PROPERTY MANAGEMENT

Our property portfolio of about 3.3 million square metres mainly consists of high-tech research facilities and various types of education and commercial office premises. The properties must maintain a high standard for a long time, but at the same time be able to be adapted to meet the changing needs of our customers. High quality in maintenance services, responsible energy consumption and open communication with both customers and suppliers are crucial for increasing business benefits and value for our customers.

## Sustainability initiatives together with our customers

Based on Akademiska Hus' energy strategy and our ambitious sustainable development goals, we aim to halve the amount of energy delivered by 2025 and to eliminate the CO<sub>2</sub> footprint of our operations. A crucial component of this strategy involves reducing energy

consumption in our current property holdings, but we are also focusing on creating renewable energy, including through solar panels.

An important aspect of our sustainability efforts entails collaborating with our customers in various sustainability initiatives. The aim is not only to reduce the amount of energy used, but also to create commitment and visibility relating to sustainability, while leveraging our aggregate knowledge from different aspects of the field. The initiatives are based on a shared desire to act and invest in sustainable choices. A number of innovation projects are also underway along with our customers in these areas.

### STRATEGIC SUSTAINABILITY GOALS:

- Energy purchased each year, kWh/m<sup>2</sup>, will decrease at such a rate that there will be a 50 per cent reduction by 2025 compared with 2000.
- Eliminate CO<sub>2</sub> footprint from operations.
- Initiate sustainability initiatives with customers.
- Accident-free workplaces.



## case

### Akademiska Hus' new climate-neutral targets

Akademiska Hus has developed an array of ambitious targets to be able to contribute to a climate-neutral society. In summary, the Company will reach the following targets related to climate neutrality:

- **Climate-neutral property operations by 2025:** the target will be achieved by deliberately working with proactive energy-saving measures, investments in energy-saving technology and renewable solutions, as well as through clear energy purchasing strategies.
- **Climate-neutral internal operations by 2025:** the target includes Akademiska Hus' business trips and other impact from consumables, etc.
- **Climate-neutral project operations by 2045:** the target will be achieved through clear follow-up of the impact of the projects by taking active decisions regarding design solutions, systems and material choices, clarifying our client demands regarding execution, and enthusiastically searching for climate-smart solutions that equally fulfil the needs of our customers.



### CAMPUS AND BUSINESS DEVELOPMENT

Sweden's learning environments and campuses are undergoing constant development. Needs, desires and visions are discussed together with all centres of education. Campuses that are vibrant during all the hours of the day and interact with the surrounding community are crucial for Sweden's higher education institutions to be competitive. With our collective knowledge and in close collaboration with our customers, we formulate campus plans to develop entire campuses for the future.

#### Overall perspective for socially sustainable campuses

The campus is a venue for research and learning, as well as for encounters with the business community and the interface for encounters with the community at large, where everyone should feel welcome. In addition to developing efficient and inspiring learning environments, we meet user needs by creating accessible meeting places and collaborating with other stakeholders to ensure an attractive range of services. Restaurants, opportunities for cultural and sports activities and access to child care and preschools in close proximity to campus are examples of services that make life easier and increasingly integrated into and around the campus. More undergraduate and graduate student housing is high on the priority list at many centres of education. Campus-based student housing is one of the most important factors for creating a vibrant environment that is open, safe and inviting round the clock, every day of the week.

#### Strong innovative ability

To meet the challenges we face as a community builder we must enhance our power of innovation to ensure our deliverables and create value for customers. Factors such as digitisation and globalisation affect teaching and research, and place new demands on both existing and future knowledge environments. We will develop products, services and practices through structured innovation partnerships, thereby contributing to sustainable development in the community.

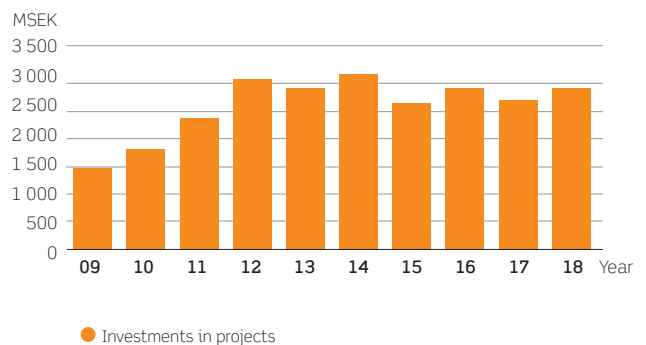
### PROJECTS

The construction process represents a substantial portion of Akademiska Hus' business and our project portfolio consists of approved and planned projects for about SEK 14 billion. The construction projects, which are developed in close collaboration with our customers and other stakeholders, vary in nature from small-scale renovations to new advanced research facilities. Through these projects, we help to ensure that higher education institutions meet their long-term needs for premises appropriate for education and research. One of our strengths is the ability to coordinate and run the extensive and complex collaborative processes that are the key to a successful result. The ability to build sustainably is a key competitive advantage. Cost efficiency, skills development and experience feedback are key development areas in the projects unit.

#### Digitisation and innovation

The digitisation discussion in the property industry is in full swing and we see an increasing interest from our customers and suppliers in the opportunities that will accompany digitisation. We are shifting to a more digital approach to running our construction projects. Examples include Albano in Stockholm, where we are testing new models to shift towards a more digital approach. Another digital and innovation-focused project that we are running is A Working Lab on the Johanneberg campus at Chalmers University of Technology in Gothenburg. The building will be an innovation arena that also serves as a test bed during the construction process.

#### CONTINUED HIGH INVESTMENT RATE, SEK M



The diagram shows annual investments in projects from 2009 to 2018 and on average, Akademiska Hus has had an investment rate of about SEK 2.5 billion per year. We have invested approximately SEK 50 billion in new construction as well as in redevelopment and extensions since 1993.