

U p D a t e

September 1999

Wallenstam UpDate is a free news letter which focuses on describing and commenting on matters of interest at the listed property company Lennart Wallenstam Byggnads AB. UpDate does not have a fixed publishing schedule. Instead, it is published when considered necessary.

We prioritise speed and content rather than an advanced layout. Consequently, UpDate is now distributed solely by fax or e-mail to those persons we believe are interested in following the company from an investment perspective: financial analysts, property analysts, investors and journalists. We would, however, be more than happy to reach other readers and if you are interested in being included on the distribution list, please contact Josefin Andréasson, phone +46-(0)31 200 000 or e-mail to josefin.andreasson@wallenstam.se. The publisher of UpDate is Thomas Dahl, Director of Marketing and Information at Wallenstam. Any questions concerning the content should be addressed to him, phone +46 (0)31 200 000.

Wallenstam Update – September 1999

The Board of Directors of Wallenstam proposes redemption of shares at their net worth of SEK 95 per share

At an extraordinary general meeting to be held on 16 November, the Board of Directors of Wallenstam intends to propose the redemption of shares for a total of about SEK 90 million.

The Board intends to propose to the general meeting that every 20th share be redeemed at a price of SEK 95. This is equivalent to Wallenstam's net worth per share, after full tax, on 30-06-1999. Further information on the form of the proposal will be given in the notice convening the general meeting. The notification period is planned to begin at the end of November.

In July, 1999, Wallenstam completed the sale of its properties in Malmö at a selling price of SEK 508 million which resulted in a

capital gain of SEK 70 million. The selling price was 8 per cent higher than Wallenstam's internal valuation of the properties on 31-12-1998.

After having reviewed the company's financial position, taking into account planned expansion and other factors, the Board considers the redemption price of SEK 90 million to be well balanced. After the redemption has been completed, Wallenstam will have an adjusted equity ratio of 28%. Over the next two years, Wallenstam intends to carry out projects at a cost of about SEK 500 million including the construction of commercial properties in Gothenburg, the refurbishment of commercial properties in Gothenburg and Stockholm and the refurbishment of residential properties in Central Gothenburg, such as Avenyn 4 and Götaplatsen, and Helsingborg. In addition, Wallenstam intends to continue to acquire properties with refinement potential which can be further developed with good

profitability and to sell additional properties which are considered to be fully developed, thus falling into the category of management properties.

Reasons for redemption

The Wallenstam share has a net worth of SEK 95, taking into account 28% deferred tax on surplus values. The net worth is based on internal valuations of the properties which, among other things, has been confirmed by the above-mentioned sale of the properties in Malmö. The share has long been traded at a substantial discount compared with its net worth.

In the light of this, the Board has decided to propose that Wallenstam carry out a redemption of shares, at a price of SEK 95, for a total of SEK 90 million. The Board's reasons are:

- this redemption will clearly underline its view of Wallenstam's net worth of SEK 95 per share after deferred tax.

- to transfer to the shareholders an amount which, in principle, is equivalent to the capital gain made by Wallenstam on the sale of its property portfolio in Malmö.

“This is the first time we on the board of Wallenstam have proposed such a measure. I note that the capital market has reacted very positively. In addition to several positive comments by analysts and investors, the share price has risen about SEK 3 and the number of shares traded has increased sharply at the time of writing“, says Hans Wallenstam, Managing Director, in a comment.

Strategic consequences of the sale of the Malmö property portfolio

The sale of Wallenstam's property holdings in Malmö, as mentioned above, has now been completed. The selling price was SEK 508 million which is 8% higher than Wallenstam's internal valuation.

The sale of the property holdings in Malmö will have a number of well-defined strategic consequences for the Company, including:

- a major impact on the ratio between apartments and commercial premises in Wallenstam's total property mix. After the sale in Malmö, apartments accounted for 62% and commercial premises 38% of the total

floor space of the properties.
“As regards the ratio between apartments and residential premises, we have now achieved a better balance than before, given the current market situation. Our assessment is that in the long term, the proportion of commercial premises, primarily in the Gothenburg region, could increase. The recently completed acquisition of the so-called Turion Building, with 15,800 m² of floor space, in Gothenburg at the same time as the sale of residential properties and the acquisition of the former Boo Hospital in the municipality of Nacka have altered the ratio still further. The ratio is now 60% apartments and 40% commercial premises, says Hans Wallenstam.

Objective 2000

The recently published interim report for the first half of this year shows that the financial objective of a profit from property management of at least SEK 100 million before depreciation, set earlier by the board, will most probably be achieved. During the autumn, a new strategy will be drawn up and made public in the year 2000.

Highlights from the Interim Report

The recently published interim report for the first six months of this year showed a continuing strong profit trend. Some highlights:

- The profit after tax improved sharply to SEK 80.1 million (-2.3).
- The profit per share was SEK 4.23 (-0.12).
- The profit on property management continued to improve and amounted to SEK 23.1 million (5.2).
- Equity was equivalent to SEK 42.37 (31-12-1998: 38.80) per share.
- As a result of active financial management, the average interest rate dropped to 5.78% (6.66%).
In terms of profits, this represents an improvement of SEK 42 million on a full-year basis.

In a comment on the interim report, Hans Wallenstam says:

“The sharp improvement in profits means that, with an unchanged dividend policy, there is the possibility of raising the dividend by more than 50%. This would be equivalent to a dividend yield of nearly 3%.“

The rental apartment discussion

During the summer, the question of the rental apartment as an accommodation form was the subject of intense discussion. The reason for this is that many people feel that the continued existence of rental apartments is threatened in attractive locations and in areas where there is a shortage of accommodation, e.g. the

centres of the large cities. The gradual but rapid conversion of rental apartments into tenant-owner's apartments is evidence that this trend is now a prominent feature of the housing market. A natural counterbalance which would preserve the rental apartment as an accommodation form is, according to Wallenstam, that in the future the rental level should be determined more on the basis of market prices than is currently the case.

"At Wallenstam, we continue to believe in the rental apartment as an accommodation form. This presupposes, however, that we will be able in the long term to allow the so-called location aspect to influence rental levels to a greater extent than is currently possible. For this reason, we are not planning any large-scale sale of residential properties in order to transform rental apartments into tenant-owner's apartments, even if this naturally cannot be excluded in the case of individual properties, says Thomas Dahl.

"The fact that this is an important question and that established practice is slowly changing can be seen in the recent decision handed down by a Court of Appeal in which it was established that a landlord is entitled to charge for the actual cost of refurbishment by raising rents, even if this results in

setting aside the utility value principle".

"A free interpretation of this decision shows that we at Wallenstam realise that there is considerable potential in the partly new line of reasoning followed by the court. The court's statement that a rental level of SEK 1,500/m² for a refurbished rental apartment in Central Stockholm is not unreasonable provides us with interesting data to use in our own calculations. One of our properties in Stockholm, which is due for refurbishment, is currently valued at about SEK 8,000/m². Based on the decision of the Court of Appeal, the market value of this property after refurbishment would almost double. Bearing in mind that we have in central Stockholm alone nearly 38,000 m² of apartment floor space, several of which are in need of refurbishment, which can now be profitable for us, we see a significant upside as regards valuation," says Thomas Dahl.

"A commission led by Bengt-Ove Birgersson, is currently looking at the future of the utility value system and is expected to present its findings on 1 March, next year. Naturally, we are anxious to contribute in different ways with input," Thomas Dahl continues.

"Wallenstam will thus continue to be active in this debate and we feel that the authorities and politicians who make the decisions

listen to what we have to say. Recently, for example, representatives of Wallenstam, Diös and the public housing sector were invited to a meeting with Lars-Erik Lövdén, the Minister of Housing, to discuss the question," Thomas Dahl concludes.

Acquisitions, sales, large leases and projects in progress

- Wallenstam has purchased the so-called Turion Building in Gothenburg, which it will take over on 01-10-1999. The property consists of 15,800 m² of floor space in the form of commercial premises. The purchase price was about SEK 95 million (about SEK 6,000/m²). On the take-over date, about 70% of the floor space will have been leased out.
- Two refurbished residential properties in Gothenburg (Södra vägen 71 and Lasarettsgatan 7) have been sold as of 1 October. The selling price is SEK 55.8 million which is at the same level as the Company's own valuation.
- The conversion of the former Boo Hospital in Nacka, which was acquired on 01-07-1999, is proceeding according to plan. At the time of its acquisition, about half the premises, mainly designed for health care activities, were vacant. After a name change (a competition will be held

for this), conversion and some renovation, the 17,000 m² of floor space will also be rented out for other activities not connected with health care. For example, the private education/training company Vittra has signed a contract to lease 3,500 m² from 1 August, 2000, at a price of between SEK 1,300 and 1,400 per m². At the same time, discussions and negotiations are being held with several other interested parties and Wallenstam expects the whole property to be fully occupied within a year.

- The demand for commercial premises is good and so far, this has resulted in an average rent increase of 15–20% following the renegotiations so far completed this year.
- In Gothenburg, several residential properties, including Avenyn 4 in the centre of the city, are undergoing conversion and refurbishment. In the case of Avenyn 4, the rental level after refurbishment will be in the region of SEK 1,400m². In Helsingborg, Wallenstam is planning to begin refurbishing about 200 small apartments, 1- and 2-room, this autumn.

Organisational change at Wallenstam

The company Wallenstam Göteborg is being split into two separate companies –

one for commercial properties and one for residential properties. The reason for this is Wallenstam's assessment that continued and intensified investments in commercial properties require further specialisation. The managing director of the "commercially oriented" company will be Benny Olsson, the former managing director of Wallenstam Göteborg AB. The managing director of the residential property company will be Peder Wahlgren, who was previously a project leader at CA Consultadministration in Gothenburg.

Interest-rate conversion

The continued low interest rates mean that it is possible to continue to convert older loans to new loans at lower interest rates. In 1999, the average interest rate has been reduced from 6.66% to 5.78%. During the remainder of 1999 as well as next year, loans totalling SEK 887 million will be converted. If the interest rates remain at their present level during this period, Wallenstam could theoretically reduce its interest rate by 1.5% which would result in a profit increase of about SEK 13 million.

"Only analysts love property shares"

Dagens Industri used this headline on 27 August when it published a review of the price trend of the listed property companies' shares.

It was noted that so far this year, the share price of properties companies has dropped (with the exception of building companies) at the same time as the general index has risen more than 20%. One of the reasons given is that, generally speaking, smaller companies have found it difficult to attract the interest of the stock exchange and that, in principle, all the property companies are in the category of "smaller companies".

"The trend of the Wallenstam share closely follows the pattern described. Prior to the one-time dividend, the share price had fallen about 10% since the beginning of the year, despite the company's positive financial performance. Even if the basic rule is that a listed company should not comment on the price of its own share, one cannot avoid a little extra reflection when the share price is lower than reported equity which, on 30 June, amounted to SEK 42.37/share, says Lennart Ekelund, Finance Director at Wallenstam.