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# Long-term stability – a strength in an unsettled world

We are already well into 2023, so it's time to both sum up the past year and try and look ahead. In several of my meetings with investors, as well as in the quarterly reports for the second half of the year, I likened 2022 to the literary character of Dr Jekyll and Mr Hyde, someone who flipped back and forth between good and evil, positive and negative. That's how 2022 was.



## “The future belongs to those who prepare for it today.”

Malcolm X

Because who could have imagined that, having finally seen off the corona pandemic, the world would fall into another abyss in February 2022? The history books will mark 2022 as the year that Russia invaded Ukraine. Life changed for many people on 24 February. It was an event that blurred the line between reality and fiction in an unreal and frightening way. The invasion has shaken the entire international system to its foundations, and has major implications for the whole of Europe. Unfortunately, there are also many other armed conflicts taking place around the world. The list is endless, and it is too much to hope that 2023 will be a year of peace. The world today is volatile and uncertain, and this has a significant impact on Sweden, our industry and, of course, on us as a company. 2022 was a year of soaring inflation, rising interest rates, extreme fluctuations in energy prices and falling share prices.

However, we should not forget that uncertainty and crises can also present opportunities for those that take a long-term approach. Despite a turbulent environment, we were able to move forward with positive net lettings and stable, or even increasing, rental levels, although there was marked caution in the market, at least compared with recent years.

## “I am so clever that sometimes I don't understand a single word of what I am saying.”

Oscar Wilde

The pandemic has taught us many ways of working smarter. We have learned to harness new digital tools to facilitate everyday life. I think we've adopted an inquiring and structured approach to new opportunities and recognised them as just

that; opportunities, both for our company and for our customers. Our behaviours are clearly changing, both in terms of travel and work habits. We are seeing more remote working, while business travel for certain types of meetings is decreasing and being replaced by online meetings. I'm also aware that over the past year we have learned to appreciate what the office means for us as individuals and for companies. We tend to say something good always comes from something bad, and in this case it's actually true, particularly in two areas. The pandemic has sped things up; we have quickly learned to work more flexibly and remotely, and to make use of digital technology for our meetings. The extent to which we can and want to work from home is determined by what's best for a company and its employees.

That means we need to create offices that make employees want to be there and to enjoy being there. The term *campus* has been used, but I'd like to find a new word for office, one that exudes more dynamism than a dusty sea of desks; that's about hubs and not just desks.

All suggestions are welcome!

We also need to continue developing our neighbourhoods to ensure they are vibrant, 24/7.

## “You can't do today's job with yesterday's methods and still be in business tomorrow.”

Zig Ziglar

Our 102 properties, worth approximately SEK 86bn, form the basis of our business. Every day we must nurture and develop our property holdings. It's a daily responsibility involving numerous tasks, big and small. But it's these very tasks that generate results. We want to be an effective partner, one that can grow and develop alongside our customers, that understands their business and can support them when needed.



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It's often a matter of offering flexible solutions, when it comes to size of premises, how they can be used, and, in particular, the length of our leases. Quite simply, making life easier for our customers, every day. Key to this is having our own service organisation in all our neighbourhoods, and I'm pleased that we achieved a surplus ratio of 74 per cent, considering that everything became more expensive during the year.

The day-to-day work with our clients, our properties and our projects doesn't really change over the years in terms of importance, but we are constantly evolving in how we go about it. This is particularly true of how we make use of new technologies and digitalisation.

And we also work a lot with our customers to shape the products of the future. We have been using 'WAW' for a couple of years to make life easier for our customers. And we also have more and more 'NOW' units, which are ready-made offices with shorter leases. In 2023, we also hope to open our first 'VOV' dog daycare centre.

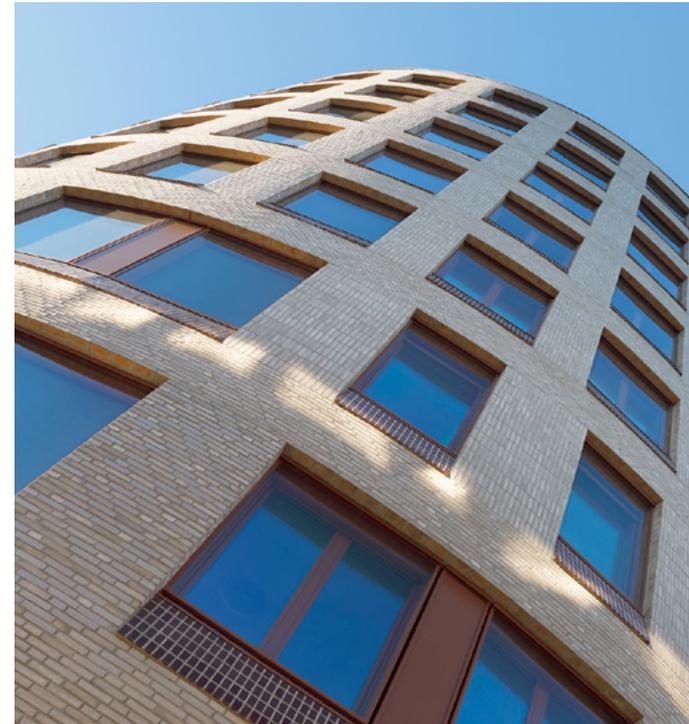
**“Only when the tide goes out do you discover who's been swimming naked.”**

Warren Buffett

We've had 10 years of what in sport would be called doping. In many countries, interest rates have been negative and central banks have been throwing money at the market. The period has been characterised by non-existent interest rates, high growth and a strong rise in the value of assets, such as property. This has also contributed to instability in some financial systems.

2022 saw a sharp increase in inflation, in particular due to rising and unpredictable energy prices, along with rising interest rates, increasing construction prices, and higher food prices. Everything has become more expensive. At the start of the year, the Riksbank's policy rate was 0 per cent. The Riksbank started to raise it in May to 0.25 per cent. Since then it has risen rapidly and now, following the latest increase, stands at 3.0 per cent. Increases are expected to continue, even if the economy experiences a swift slowdown. This, in turn, has meant that few asset classes have been able to avoid the effects of the higher cost of borrowing and the increased price of risk.

Naturally, interest rates have had a negative impact on the property market. Both because yield requirements are rising, and because corporate financing is becoming more expensive. The average yield requirement rose by 0.23 percentage points to 3.99 per cent in our portfolio. Increased yield requirements were mainly the result of higher interest rates. Valuations were partly offset by increased rent levels due to higher inflation



**We've seen a steady increase in value over the year; market rents have risen, our development rights have been upgraded and we have been working actively with our interest rate swaps.”**

assumptions. Obviously, yield requirements will continue to be affected by interest rates, which in turn are influenced by a great many uncertain macro factors.

The autumn has been marked by concerns about the ability of property companies to source financing. We have read how some owners have been forced to sell shares and properties to manage their debt. It therefore bears repeating that we have a strong balance sheet, good banking relationships and good refinancing opportunities. At the end of the year, we negotiated new bank facilities of SEK 2.4bn, and facilities of SEK 3.4bn were extended. We currently see bank financing as the best and most attractive financing option, but, of course, we hope the capital market will become more attractive again.

Around 65 per cent of our borrowing is at low fixed rates, mainly using interest rate swaps. Just under half of our current

borrowing has a fixed interest period of more than three years. This means that a 1 per cent rise in interest rates, based on current volumes and margins, would increase our interest costs by around SEK 100m over the next 12 months, or the equivalent of around 0.3 per cent.

It now pays to have been considered “a bit boring” in recent years. However, this does not mean we don't also have to work on our costs. We have to keep distinguishing between ‘good costs’, which bring in revenue, and ‘bad costs’, which waste money. And in addition to that, there is another success factor: our long-term owners. There aren't many companies that can demonstrate such a stable ownership base as we can, and this became clear during this autumn's turbulence.

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## There aren't many companies that can demonstrate such a stable ownership base as Fabege."



### "Fast is fine, but accuracy is everything."

Wyatt Earp

During the post-war period, many companies were established in Sweden that enjoy strong positions around the world. These include industrial companies, pharmaceutical companies, service companies, trading companies, companies in the entertainment industry, IT and computer companies, and others. Many were started and are run by great entrepreneurs and business leaders. Several of these companies have been and remain extremely important for Swedish growth and urban planning. Today, numerous Swedish corporate founders and leaders are respected around the world. Many of these companies are tenants of ours. Our tenant list is a strength, especially in more uncertain times.

### "Every cloud has a silver lining."

John Milton, 1635

Looking at the figures for the year, we achieved positive net lettings of SEK 86m. All quarters of the year showed positive net lettings. In general, the rental market was calmer and the time to completion was longer than before. This became particularly clear towards the end of the year.

We are active in several areas to improve our vacancy rate, and as part of this we strengthened our letting organisation during the year. Efforts to reduce vacancies take time, and I believe we also need to find new solutions, such as 'NOW' for short-term lets, but it's entirely possible we will be back at a level of 95 per cent in a few years' time.

### "There's no rule against doing a bit of business at social events"

Erik Paulsson

The transaction market remained strong well into the autumn, when we noted a slight slowdown, and relatively few transactions took place in our areas. We have made few transactions in recent years. In 2020, we sold a couple of properties, and in 2022 we continued to strengthen our position in Flemingsberg through the acquisition of Generatörn 10, a 33,000 square metre commercial development right next to our other properties. We also acquired the Kabelverket 2 property in Älvsjö, with an area of approximately 22,000 square metres and some development rights. We are very confident about increased growth in southern Stockholm, and Kabelverket, with its good, solid tenants, fits in with that part of our development strategy.

The transactions we conducted in 2022 were, of course, chosen because we considered the properties attractive and because we realised we could create value, even in challenging times. Although, as we know, there is no compulsion to sell or buy, we felt these transactions could make good use of our local knowledge.

Our property projects progressed largely as planned over the year, but were affected by rising inflation, which led to general cost increases in the order of 10–15 per cent, mainly relating to material costs. We invested a total of approximately SEK 2.3bn in property development in 2022.

We completed three major projects during the year, including Poolen in Arenastaden for Tietoevry, and Convendum moved into its facility on Kungsgatan.

In Haga Norra, where we are combining offices, housing and small-scale services, homebuyers continued to move into the residential properties, and the new Ackordet office building is under construction, along with the area's parking and logistics buildings. In the fourth quarter, we signed a lease with JM for 6,500 sqm at good rental levels. A mobility hub with 530 parking spaces is also being developed in Arenastaden.

At the end of the summer, construction work began on Alfa Laval's new offices and development centre in Flemingsberg. The approximately 20,000-square-metre office building and innovation centre will be a key element in the development of the new Flemingsberg. 2024 will see the Royal Dramatic Theatre and Royal Opera move into new workshops, studios, archive rooms and rehearsal rooms. During the year, we also worked intensively on the planning processes that are underway for the area, and that have a bearing on future projects.

We have a well-stocked portfolio of upcoming projects, but of course we are keeping a close eye on market conditions. For example, housing construction prices are currently well above those in the rest of Europe, something we and our colleagues need to get better at managing. We need to be able to create flexible, modern and smart homes; the needs are there, but the price is too high. Many Swedish residential developers are currently struggling. After many, extraordinarily good years, they are now back to reality. Borrowing has been too easy, which in turn has meant high prices and significant risk-taking. As reality bites, the gains of recent years have not created buffers and risk-taking has only increased. We have our development rights and can afford the luxury of using them when we judge that both market demand and costs have stabilised. This means that we are slowing the pace of new starts for both office and residential projects, at least for a few quarters into 2023.



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**“Stockholm, Stockholm city in the world, Stockholm, Stockholm, city of the world.”**

Pugh Rogefeldt

During the year, our subsidiary SHH changed its name to Birger Bostad, inspired by Fabege’s founder Birger Gustavsson and Stockholm’s founder in the mid-13th century, Birger Jarl. One of the strengths throughout our business is our focus on Stockholm. We have well-managed and modern properties in a few selected submarkets of Greater Stockholm, we know our areas and customers well, and we work closely with the cities and municipalities to continue developing the areas. This allows us to be an active urban developer and increase value creation.

**“What helps people, helps business.”**

Leo Burnett

Interest in sustainability issues is steadily increasing, as is interest in our sustainability work, which is an integral part of our business, both in projects and day-to-day operations. It was therefore gratifying that we moved up the Global Real Estate Sustainability Benchmark (GRESB) again in 2022. GRESB evaluates a number of sectors based on a wide range of sustainability aspects, from environmental to social sustainability, governance and monitoring. In the 2022 rating, we scored 94 out of a possible 100, the highest ranking in the office sector, among 1,800 other listed European property

companies. That’s something to be proud of. And we can also be proud of the work done to further reduce energy consumption.

I am really pleased with our work on social initiatives in 2022. I’m thinking of all the great meetings we’ve had with customers and people in our areas, and all the development we’ve contributed to in our properties and areas. I’m also thinking of how we have tried, in our own way, to help the residents of Flemingsberg, in particular, to have better schooling, richer leisure time, and work experience and employment opportunities. I’m thinking of how we support some of our tenants working with Ukraine, both on the ground and with refugees here in Stockholm, and how we continue to support the charity Stadsmissionen.

I’m also thinking of how we are trying to contribute to a better world through our sustainability efforts. And I’m thinking of how all this leads to an even better company, equipped for the future, and how it leads to better neighbourhoods and areas, and how it creates value.

We can be proud that in autumn 2022 we inaugurated the first ‘Hållbarhetshus’ (sustainability building) in Arenastaden. It is part of Vinnova’s Återhus research project – constructing buildings from buildings. On our initiative, 14 partners have developed methods and processes to reuse steel and concrete frames and facades in a new building. It wasn’t an easy process, but it is now in place; 1,000 square metres of office, meeting and showroom space, 70 per cent of which is made from recycled building materials. It’s the first step in a long journey, a journey we hope to make together with others.

Sustainability is not a competition, but a collective direction and challenge for the entire industry. As a company in the property sector, we have a unique opportunity to contribute to a better society, and we want to both inspire other companies and be inspired by others to also harness this opportunity.

Our greatest competitive advantage is not, of course, our properties of stone, steel and concrete, but, ultimately, all the employees who meet our customers every day, keep the properties in great condition, develop business, projects and offices, and carry out all the tasks needed in a company like ours. We wouldn’t get far without a professional, skilled and passionate organisation. Along with our GRESB ranking, we were also delighted to be named one of Sweden’s best workplaces by Great Place To Work in 2022. I’m proud of this too, because it really reflects our core values – known as ‘SPEAK’ in Swedish: Fast, Informal, Entrepreneurial, Business-minded and Customer-focused.

In 2022, we exceeded SEK 3bn in rental income for the first time. On a like-for-like basis, income rose by 5 per cent. Net operating income increased to SEK 2.24bn. However, income from property management decreased slightly, mainly due to higher interest expenses.

What is the outlook for 2023? What do interest rates and inflation mean for companies and tenants? Will the market calm down, or will it become even more turbulent? Will the stock market continue its decline? What is happening globally and closer to home? And perhaps, most importantly: how do we resolve our energy supply? What we do know is that the past 10 years have been good for property companies. How the next few years, or even the current one, will unfold is almost impossible to predict, at least at the time of writing. There are numerous factors creating uncertainty and concern, both for the economy in general and for the property market in particular.

Overall, we are well equipped to meet the challenges of today and tomorrow, and to seize the opportunities that may be created. We must therefore remain close to our customers and keep looking after our properties with passion and foresight, continue to keep costs down, keep developing our neighbourhoods and our city, and, last but not least, keep looking after each other. We need to try a little harder still, and understand the changes around us. If we do that, we will continue to be the “success factor for a new era”, and keep creating value for shareholders.

**Stefan Dahlbo**  
President and CEO Fabege