CREDIT OPINION
5 February 2025

New Issue

Send Your Feedback

RATINGS

Hemso Fastighets AB

Domicile	Sweden
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Maria Gillholm +46 851.791.270
VP-Sr Credit Officer
maria.gillholm@moodys.com

Jonathan Rosengren +46.8.5179.1263
Sr Ratings Associate
jonathan.rosengren@moodys.com

Christian Hendker, CFA +49.69.70730.735
Associate Managing Director
christian.hendker@moodys.com

Hemso Fastighets AB

New issuer

Summary

Hemsö's A3 long-term issuer rating reflects a Baseline Credit Assessment (BCA) of baa1, with an additional one-notch uplift due to the moderate likelihood of extraordinary government support. Hemsö is classified as a government-related issuer (GRI) since it is 85% indirectly owned by the Swedish government through the Third Swedish National Pension Fund (AP3). AP3 is committed to supporting Hemsö's growth strategy and has provided a subscription agreement of up to SEK 6 billion, significantly reducing refinancing risks given Hemsö's relatively short-dated debt maturity profile compared to European peers (but long in a Nordic context).

The BCA is supported by (1) Hemsö's position as Sweden's largest real estate company in the social infrastructure sector, encompassing education, nursing homes, healthcare, and the justice system; (2) 83% of its property value is situated in larger cities, defined by the company as those with populations exceeding 100,000; (3) a strong operating performance, with a solid and stable rental income where 61% of rental income is derived from public-sector tenants, with 95% of tenants financed by tax revenues; (4) a very long lease maturity profile, with a weighted average lease duration of 9.1 years, thanks to the initiation of 20-year contracts from completed projects; (5) a very low vacancy rate of 2.3%; and (6) very strong liquidity and broad access to capital markets, with lower funding costs compared to peers due to Hemsö's association with AP3 and deleveraging progress supported by shareholder equity contributions. Additionally, the rating benefits from Hemsö's conservative financial policy and anticipated improvements in performance and leverage over the next 12-18 months, with debt to assets expected to improve to 56% and below.

Concurrently, the rating is constrained by (1) a relatively high leverage, with a debt-to-total assets ratio of around 58% based on Q4 2024 preliminary data, which we expect to decline to 56% and eventually towards 53-55%, aligning with Hemsö's guidance, having a decent headroom to its policy for a loan-to-value (LTV) of 60%, and earnings-based leverage, measured as a net debt/EBITDA ratio of c. 13.8x as of Q4 2024, which we expect to be between 13-14x; (2) a somewhat modest interest coverage ratio of c. 3.1x as of Q4 2024, which is, however, adequate compared to peers with comparable low-yielding assets; (3) a c. 13% rent exposure (c. 13% market value exposure) to the German elderly care segment, a less regulated market than Sweden, dominated by private operators; and (4) ongoing capital needs from development activities and acquisitions as part of the company's growth strategy.

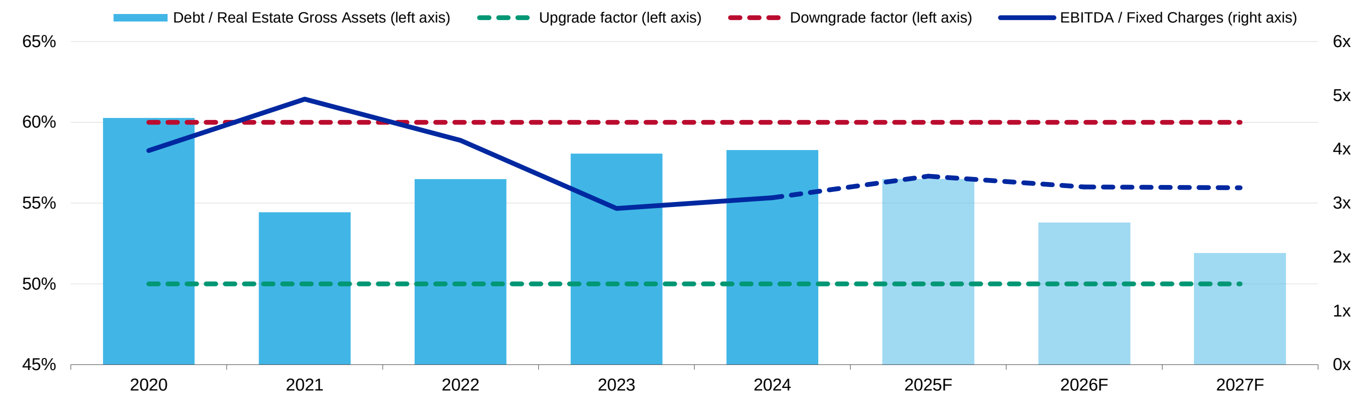
We note that social infrastructure is a relatively new segment in the property market. Given the supply and demand characteristics, which we believe will remain positive for landlords due to an aging population, we view social infrastructure rental assets as relatively more stable compared to other real estate rental assets, which are more structurally challenged. We expect this could lead to a steeper deleveraging path than the company's forecast in terms of LTV, depending on the start-up of development projects, yield development,

and equity injections from owners. However, given that this part of the property market is somewhat untested through the credit cycle, we place significant value on a commitment to financial policies that will sustainably support lower leverage levels.

Exhibit 1

Leverage and coverage has improved because of equity contributions

Debt/gross assets and EBITDA/fixed charges



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.

Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

- » Very low-risk portfolio, located in large and growing urban areas of Sweden, Finland and Germany
- » Strong market position and very good asset quality, supported by healthy underlying fundamentals
- » Close to 100% tax-financed tenant base with 61% of rental income derived from public-sector tenants
- » High share of unencumbered assets compared with other Nordic real estate companies
- » Disciplined liquidity management, supported by strong owner in AP3

Credit challenges

- » Elevated leverage, with Moody's-adjusted total debt/gross assets around 58%
- » High Moody's-adjusted net debt/EBITDA of around 13.8x
- » Some exposure to the German elderly care market, which is predominantly operated by partially weaker private entities that face operational risks
- » Capital discipline for growth strategy, which requires equity contributions

Rating outlook

The stable outlook is based on Hemsö's strong track record of good operating performance and consistently low vacancy rates, as well as its very good access to various capital markets and continuous support from owners through equity injections during challenging times. Additionally, the stable outlook is anchored in our expectation that the sound operating environment in the company's end-markets of social infrastructure assets will continue. We also expect Hemsö to maintain its focus on developing assets that are 100% pre-let, which, combined with the absence of significant vacancies and an average lease maturity of around 10 years (with new projects typically having 20-year lease terms), provides high cash flow visibility. Furthermore, our rating assumes that the AP3 fund is a long-term, committed owner and will remain supportive. The stable outlook also reflects our expectation that the initially high debt-to-asset ratio of around 58% will improve to around 56% in 2025 and remain at that level over the next 12 to 18 months. We also anticipate that the company will preserve its strong liquidity profile, with cash sources covering uses for at least the next 18 months.

Factors that could lead to an upgrade

» Support from owners that effectively acts as a guarantee

» Continued support from the owner AP3 through subscription commitment and equity injections to balance the leverage

» Effective leverage, measured by total debt/total assets, at 50% or below

» A fixed charge coverage ratio sustainably above 4.0x in a normalized interest environment

» Net debt to EBITDA of towards 10-11x

» Maintenance of robust liquidity including a high unencumbered asset pool

Factors that could lead to a downgrade

» Any weakening in our expectation of financial support from the AP3 including a change of ownership or changes in regulations that would make Hemsö a less strategic investment for the AP3 fund

» A deterioration in the company's liquidity including changes to the terms of the subscription agreement provided by AP3

» A downgrade of Sweden's sovereign rating

» Weaker market fundamentals, resulting in falling rents and asset values

» Effective leverage, measured by total debt/total assets, at 60%, and a fixed charge coverage ratio materially below 3.0x on a sustained basis. This is being viewed in connection with its GRI status and the operating stability characteristics in asset type

» Net debt/EBITDA sustained at above 15x

Key indicators

Exhibit 2
Hemso Fastighets AB

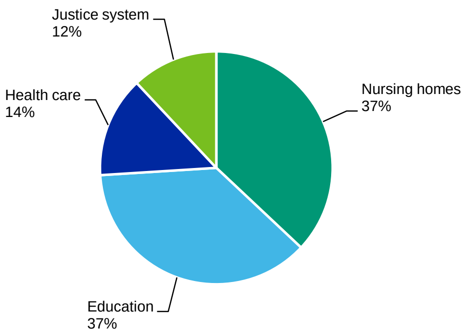
(in SEK billions)	2020	2021	2022	2023	2024	2025F	2026F	2027F
Gross Assets	65.1	79.5	89.4	89.2	91.3	96.0	99.1	101.3
Unencumbered Assets / Gross Assets	88.6%	81.4%	81.2%	81.5%	80.4%	81.4%	82.0%	82.4%
Total Debt + Preferred Stock / Gross Assets	60.3%	54.4%	56.5%	58.1%	58.3%	56.5%	53.8%	51.9%
Net Debt / EBITDA	16.1x	16.2x	17.1x	14.4x	13.8x	13.3x	12.9x	12.3x
Secured Debt / Gross Assets	0.0%	0.0%	0.0%	1.1%	1.1%	1.0%	1.0%	1.0%
Fixed Charge Coverage	4.0x	4.9x	4.2x	2.9x	3.1x	3.5x	3.3x	3.3x

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

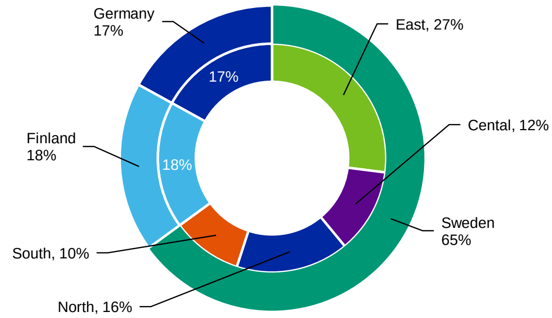
Hemso Fastighets AB is a Swedish real estate company specializing in the development and management of properties within the social infrastructure sector, including elderly care, education, healthcare, and the justice system. As of December 31, 2024, Hemsö's investment properties were valued at SEK 86.0 billion, making it one of the largest companies in this sector in Sweden. Its portfolio is geographically diversified, with properties located in Sweden (65%), Germany (17%), and Finland (18%). The company is majority-owned by the Third Swedish National Pension Fund (AP3) with an 85% stake, while the remaining 15% is held by the Swedish real estate company AB Sagax (Baa2 stable).

Exhibit 3
Market value of properties breakdown by segment (2024)



Full year 2024 data are preliminary numbers.
Source: Company filings

Exhibit 4
Market value of properties breakdown by geography (2024)



Full year 2024 data are preliminary numbers.
Source: Company filings

Detailed credit considerations

Leading real estate company for social infrastructure in Sweden, Finland and Germany

Hemsö is Sweden's largest private owner of what the company calls social infrastructure assets – properties customized for public services that primarily house tax-financed operators. The portfolio grew to SEK86.0 billion in December 2024 from SEK15 billion in 2009, with c. 83% by value situated in larger cities, defined by the company as those having a population exceeding 100,000 in Sweden and Finland, and 200,000 in Germany. As of 31 December 2024, Stockholm (27% of portfolio value) was by far the company's largest region, followed by Helsinki (8%), Malmö (7%), Västerås (5%), Gothenburg (5%), Ruhr (3%) and Norrköping (3%). This is the result of the company's strategy of focusing on properties in large urban areas, thereby limiting the risks associated with alternative use.

A prerequisite for Hemsö to invest in a country is a tax-financed welfare system governed by a robust legal framework, with Sweden acting as the benchmark for potential new markets. This translates to revenue streams that are ultimately financed by the government. The Swedish and Finnish elderly care, education and healthcare systems have similar characteristics. Germany is somewhat different with regards to elderly care, which is Hemsö's main segment in the country.

Exhibit 5
Hemsö's property portfolio is focused on four property subsegment's across three countries

Total (Dec-24)	Nursing homes	Education	Health Care	Justice system	Total
# of properties	231	154	63	29	477
Area (000's sqm)	1,039	844	311	230	2,425
Value (SEK millions)	32,053	32,019	11,982	9,919	85,973
Value/sqm SEK Thousand	31	38	39	43	35
Lease tenor (years)	8.7	11.0	6.7	7.9	9.1
Public tenants (YE2024)	37%	64%	82%	98%	61%
Rental value (SEK millions) (FY2024)	**1,939**	**1,791**	**786**	**615**	**5,130**
Per sqm, SEK	1,866	2,121	2,525	2,668	2,116
Economic occupancy rate	98%	98%	97%	97%	98%
NOI (FY2024)	**1,423**	**1,380**	**562**	**469**	**3,833**
Per sqm	1,370	1,634	1,805	2,034	1,581
NOI Margin	73%	77%	71%	76%	75%
Value per country (FY2024) (SEK millions)					
Sweden	16,287	23,932	10,010	5,550	55,778
Germany	11,414	2,292	-	1,119	14,825
Finland	4,352	5,795	1,972	3,250	15,369

Source: Company filings

Currently, 61% of Hemsö's contracted annual rents stem from public-sector tenants such as municipalities (29%), states (18%) and regionals (14%). The remaining 39% comes from private operators (tax financed), both for- profit and non-profit. As buildings are generally built for a specific purpose, occupancy rates are consistently high (currently 97.7%), while the average lease length is 9.1 years. Rental income is on average adjusted by around 92% of consumer price inflation in each country annually. The largest top 20 tenants account for about 49% of annual rents spread across several rental agreements per tenant, with public tenants representing around 32% and private tenants 17%. Overall, these factors contribute to the company's high-income visibility.

Welfare system in Sweden and Finland limits risks associated with private operators

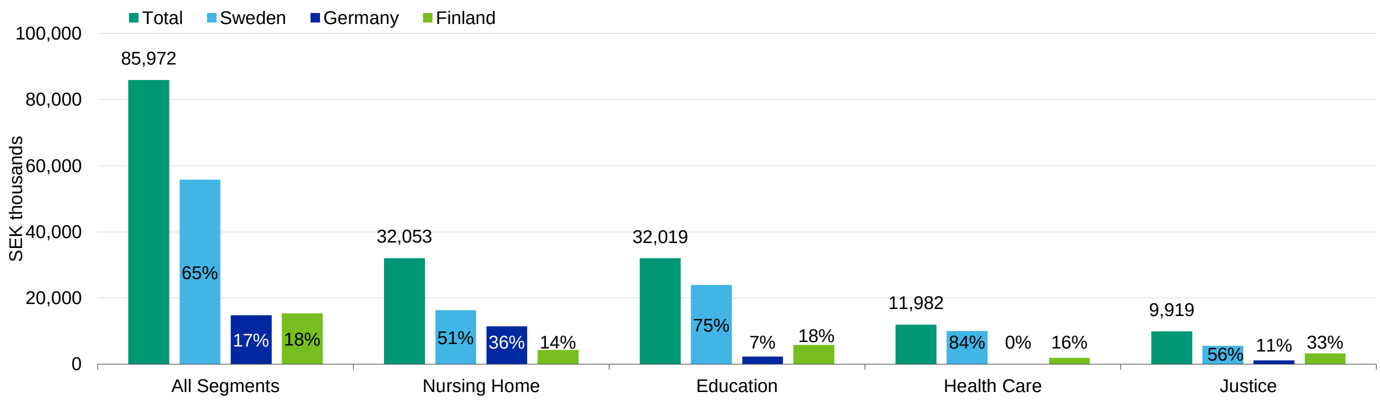
The legislative framework governing the type of welfare services carried out in Hemsö's properties in Sweden entails mainly three laws and involves the state, the 21 counties and the 290 municipalities. The Social Services Act (SFS 2001:453) governs, among other things, elderly care and is a law of rights. It is detailed in its provisions and states that "the municipality shall establish special forms of accommodation for service and care to elderly people in need of support" (5 §, section 2). The language in the law is much stronger than that of the Health and Medical Services Act (SFS 2017:30), which states that its aim is to provide the population with good health and equal healthcare rights. It is very broad in the sense that it only binds counties (counties are responsible for organizing healthcare in Sweden) to providing healthcare, without specifying the type of healthcare or time frame. The difference between the two laws is that the first stipulates rights for the citizen while the second creates obligations for the county. For Hemsö, the legislative framework creates a situation where the municipality would most likely step in and take over operations of a nursing home should its owner go bankrupt. This is underpinned by all elderly people living in a nursing home having received a decision from the municipality that they need such care. This decision is legally binding, forcing the municipality at all times to provide special accommodation for the individual. As a typical nursing home contains 54 or 72 beds, it would be very difficult for a municipality to find vacant places at other nursing homes in the same catchment area. Thus, the form of association (public versus private) has little bearing on our analysis. The same reasoning applies to our analysis of Hemsö's education segment – there are few vacant schools in Sweden waiting to receive new pupils. Education in Sweden is 100% tax financed and the presence of private schools (where the pupil pays for education) is almost non-existent. Instead, each school receives a voucher per student, with the size of reimbursement roughly the same across the whole country irrespective of the form of association. In Finland, which operates a much stricter system, schools are not allowed to be for profit and only about 2% of students attend a school not run by a government entity.

Healthcare in Sweden is run by the counties and divided between primary, specialized and emergency care. Private operators' share is highest in primary care. Although all forms of healthcare have a co-payment feature (except for people up to 19 years of age), the lion's share is paid by the counties. With the introduction of the Freedom Of Choice Act (SFS 2008:962) at the beginning of 2009 as an alternative to the Public Procurement Act (SFS 2016:1145), certain forms of healthcare do not have to be procured by the county. Instead, it offers operators a fixed rate per patient/examination. This has made it much easier for private companies to run healthcare facilities. This area is therefore the most susceptible to competition from Hemsö’s perspective as a property owner. Hence, our expectations for cash flow/valuation risk is highest for this segment (although only 18% is private operators in the healthcare segment so it is still fairly low risk).

Exhibit 6

Segment exposure varies by country FY 2024

Hemsö's investment portfolio value distribution on segment and country



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.
Full year 2024 data are preliminary numbers.
Sources: Moody's Ratings and Company filings

German elderly care segment is exposed to private-operator credit quality because public-sector support is limited

The systems and frameworks that Hemsö's German property portfolio operates under are different from those in Sweden and Finland. While the educational and justice system segments in Germany are 100% occupied by public tenants, elderly care properties (13% of the company's total annual rents) are nearly fully let to private companies (for profit and non-profit). These private operators receive only a certain share of their income from the public sector, mainly via care insurance, which is part of the mandatory social security system in the country. While replacing failed operators in a fragmented market should be possible, we would expect it to require a downward adjustment in rental levels to reinstate economic viability for the operator. Nonetheless, the demand dynamics in Germany are similar to those in the Nordics, with favorable demographic trends as a result of an aging society. Market occupancy levels are around 90%, though variations across operators and regions are wide because some nursing homes do not meet modern requirements (e.g. single rooms with private bath).

Elderly care costs in Germany are divided into the following items: housing cost, food and catering, care costs and investment costs. Individuals in elderly care homes have to pay for everything themselves except care costs, which are split between care insurance and the individual. Exact regulations are made at the federal state level. If an individual cannot afford these costs through their regular income (pension etc.), they are required to use their personal wealth (stocks, real estate ownership etc.) to cover them. People who still cannot pay these costs are ultimately covered by social welfare provided by the municipality. The support provided by social welfare is, however, limited to the more basic and cheap elderly homes to avoid moral hazard. In addition, social security and welfare system budgets remain tight. Finally, average costs can vary widely across cities and regions, making it difficult to compare and contrast portfolios and assets.

We understand that Hemsö's portfolio has not seen any material vacancies or credit losses since it entered the German market and that assets were handpicked compared with larger portfolio acquisition, based on factors such as micro location, operator and rent level. Overall, we view the German elderly care portfolio as weaker quality compared to the rest of Hemsö's assets, given operators' weaker underlying credit quality.

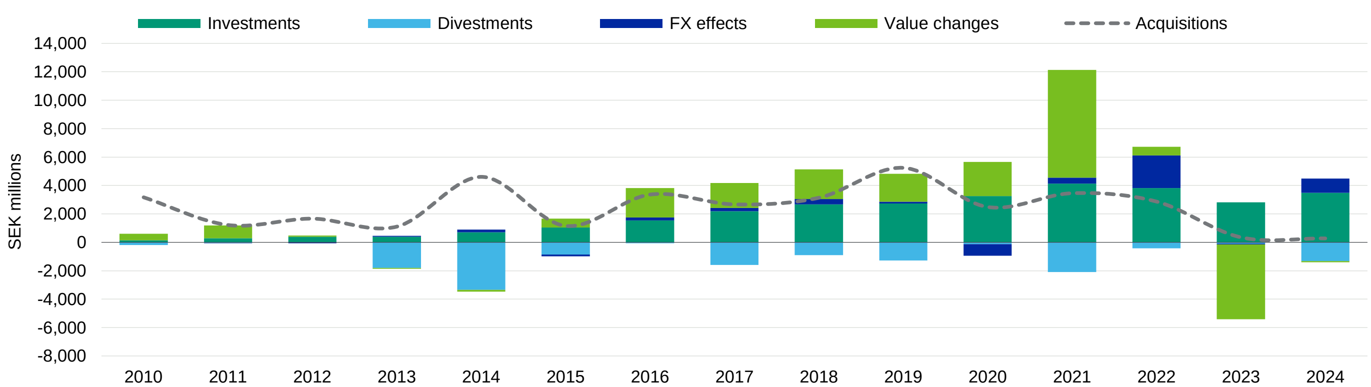
Largely pre-let developments contribute significantly to portfolio growth

A cornerstone of Hemsö's strategy is to work with projects – typically with an investment size of SEK50 million–SEK500 million, a 15-25 year lease length and a pre-let ratio of 90%-100%. In some instances where the operator is private, Hemsö obtains some form of county/municipal guarantee, minimizing vacancy/contract renewal risk. Over the last five years, the company has increased its focus on development activities, including investment of SEK2.8 billion during 2023 and around SEK3.5 billion during 2024. Construction is usually handled by third parties via turnkey contracts at fixed prices. Development margins have been around 15-20% in the past and are likely to remain at these levels, according to management.

The company carries out developments across all asset segments in Sweden and Finland. In addition, it recently established development capacity in Germany, with a couple nursing homes and a couple of schools in Berlin. Hemsö's current committed investment volume for projects exceeding SEK100 million in size is around SEK5.3 billion as of Q4 2024, of which SEK2.7 billion remains to be invested. The company's overall development exposure, which we define as total investment volume to total assets, is around 6.9%, is sizeable but within our acceptable risk tolerance maximum of 10%-15% and is likely to decline as the overall portfolio value continues to increase.

Exhibit 7

Developments gains offsets to some extent value declines in the portfolio
Hemsö investment portfolio value development



Full year 2024 data are preliminary numbers.
Sources: Moody's Ratings and Company filings

Effective leverage is high compared with peers and weighs on the rating

Hemsö's effective leverage around 58% is high compared with its peers in the investment-grade rating category. Typically, companies in the high Baa rating category have a gross leverage below 45%. Despite its low business risk, having such a high leverage makes the company vulnerable to upward pressure on yields, where c. 12% of fair value declines have been incurred since the peak in Q2 2022 as of Q4 2024.

We expect the company to reduce leverage to 55%-56% over the next 12-18 months, where we expect stable fair value changes and value uplift from completed projects.

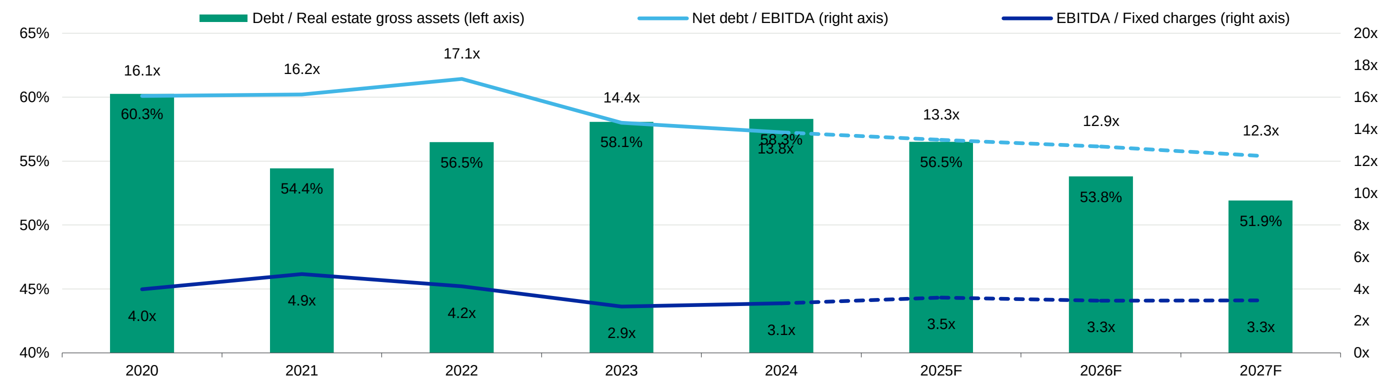
Because of Hemsö's low yielding assets carrying a relatively high effective leverage its net debt/EBITDA metric is also high at 13.8x as of LTM Q4 2024 preliminary figures, however put in a European peer perspective the metrics is still moderate and we expect it will reduce to 13.1x-13.3x the coming 12-18 months as completed projects will start to generate EBITDA.

The group's fixed charges have been declining because of rising interest rates and a short-dated debt portfolio with a weighted-maturity of around 5.0 years as of Q4 2024, and a fixed charge coverage of 3.1x based on preliminary 2024 financials compared to 4.9x by end of 2021 before interest rates started to increase. And we expect the fixed charges ratio to be in the range of 3.4x to 3.5x the coming 12-18 months where increased interest costs will be offset by increased EBITDA generation.

Exhibit 8

Leverage has decreased due to equity contributions

Moody's adjusted leverage, net debt/EBITDA and interest coverage ratio for Hemsö



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Supportive owner in AP3 creates an extra layer of protection for bondholders

Hemsö is 85% owned by AP3, whose primary task is to manage capital in Sweden's national income pension system. AP3 is supervised by the Ministry of Finance as a government agency under the Swedish National Pension Funds Act (2000:192), but is not consolidated in the accounts of the Swedish government per public accounting guidance. Though it is a government agency, AP3 is more independent than most government entities because its operations are regulated by law rather than directive. AP Funds 1-4 are mandated to manage their funds in such a way as to be of maximum benefit for the insurance of income-based old-age pensions. Contracts and other legal acts entered into by an AP fund are binding on the Swedish government. The funds can borrow money from the Riksgäldskontoret (the Swedish national debt office) if their investments cannot cover their commitments.

AP3 has a SEK6.0 billion commitment to Hemsö to buy its commercial paper should the company fail to refinance maturities coming due. Moreover, AP3 has a call option to buy out Hemsö's 15% owner AB Sagax, which itself has an option to sell its share to AP3.

As we understand it, AP3 is committed to supporting the company in the event of need. This includes injecting capital should the company expect a loan-to-value (LTV) ratio close to or above the 60% threshold in the foreseeable future or if its growth rate is deemed too aggressive for the balance sheet.

GRI assignment results in one-notch uplift

We apply Joint Default Analysis (JDA) under our Government-Related Issuers methodology to explain our views on the credit links between Hemsö and its supporting owner AP3. Our approach explicitly accounts for (1) Hemsö's standalone risk or BCA under our Global Rating Methodology for REITs and Other Commercial Real Estate Firms; (2) Sweden's “Aaa” rating as the supporting government; (3) an estimate of the default correlation between the two entities; and (4) an estimate of the likelihood of extraordinary government support. Based on our assessment of the very high level of default dependence, coupled with our expectation of the strong likelihood of the owners providing extraordinary support, Hemsö benefits from an uplift from its BCA of baa1.

Exhibit 9
GRI dependence level

Dependence	Low	Moderate	High	Very High
(1) Operational and Financial Linkages				
» Direct and Indirect Government Transfers as a % of GRI Revenue				
» Government Purchases as a % of GRI Revenue				✓
» GRI Payments (Dividends) as a % of Government Revenue				
(2) Reliance on Overlapping Revenue Base				
» Percentage of income derived from within the government's territory			✓	
(3) Exposure to Common Credit Risks				
» Foreign Exchange Risk in Debt Structure				
» Shared Industry Exposure			✓	
» Political Event Risks				
Overall Guidance Dependence Level				✓

Source: Moody's Ratings

As outlined in Exhibit 9, our view on the very high level of default dependence is driven by our assessment of the following factors:

(1) Operational and financial linkages between the company and the national government are very high, primarily because of rent payments from Swedish public-sector entities representing approximately 61% of Hemsö's revenue. Direct and indirect government transfers are less of a linkage, as are dividend payments from Hemsö.

(2) With Hemsö generating c. 65% of its revenue in Sweden, the linkages from overlapping revenue bases with the government is high.

(3) Exposure to common credit risks is low for both the company and the government.

Exhibit 10
GRI support level

Support	Low	Moderate	Strong	High	Very High
(1) Guarantees					
» Explicit Guarantees					
» Verbal Guarantees and/or Comfort Letters			✓		
» Special Legal Status					
(2) Ownership					
» Ownership Level				✓	
» Privatization Plans					
(3) Barriers to Support*	✓				
(4) Level of Government Intervention					
» History of Government Bailouts					
» Ideological and Political Inclinations		✓			
» Government Direction of GRI					
» Business Planning					
(5) Political Linkages		✓			
(6) Economic Importance	✓				
Overall Guidance Support Range		✓			

Source: Moody's Ratings

As outlined in Exhibit 10, our view on the moderate level of government support is driven by our assessment of the following six factors:

(1) While Hemsö does not have special legal status nor enjoy any form of explicit guarantee or comfort letter provided directly by the Swedish government, it does benefit from the contractual agreement entered into between itself and AP3 in the form of a SEK6.0 billion commitment facility to buy its commercial paper if needed. Furthermore, our understanding is that there is a verbal commitment to inject capital should the company need it.

(2) Hemsö is 85% owned by AP3. We understand there are no plans for the fund to reduce its interest in the company, which it effectively considers to be of a strategic nature given the effort that has been put into creating scale in its operations, as well as the consequent difficulty in replicating the type of asset class exposure that the fund enjoys via Hemsö.

(3) As there are no legal barriers to support, Factor 3 is eliminated from consideration in the final score, as stipulated by the GRI methodology.

(4) The level of government intervention in Hemsö's operations is low. The Swedish government mainly has the ability to influence strategy at company level by appointing board members and auditors at its owners, AP3, or by changing the law governing the operations of the AP funds. AP3's board of directors consequently appoints a CEO who sits on Hemsö's board of directors.

(5) The reputational risk and political embarrassment for the Swedish government of allowing Hemsö to fail, and thus not honor its obligations to creditors, is deemed moderate.

(6) We do not view the company as being of strategic importance to the economy nor the Swedish government.

Liquidity analysis

Good liquidity with strong access to capital markets

Hemsö has a strong liquidity profile. The company has demonstrated strong capital access over the past few years, despite challenges posed by the COVID-19 pandemic and the recent rapid increase in interest rates. Hemsö has a solid track record of accessing various capital sources, including equity from AP3, several bond markets, and the promissory note (Schuldschein) market. The diversification of funding sources is further enhanced by bond issuances in multiple currencies, such as euros, Norwegian kroner, Australian dollars, Japanese yen, and US dollars, in addition to Swedish kronor. Hemsö also has good borrowing access from institutions like the Council of Europe Development Bank, European Investment Bank, Nordic Investment Bank, and Nordic banks.

Hemsö's liquidity is supported by:

- SEK866 million in cash and cash equivalents as of 31 December 2024

- SEK3.9 billion in stable cash flow generation from its standing portfolio

- A SEK6.0 billion subscription agreement from its owner, AP3

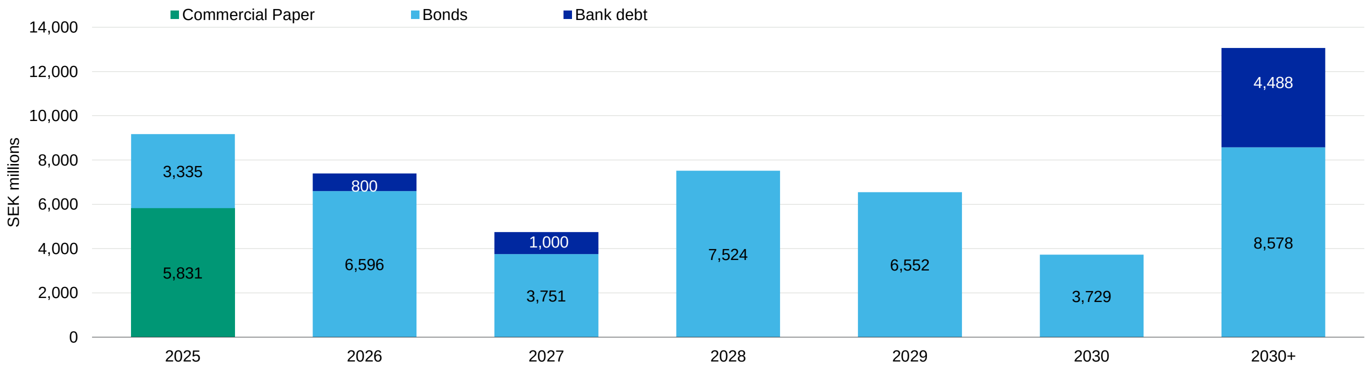
- Committed undrawn multiyear revolving credit facilities amounting to SEK 7.5 billion

We view Hemsö's liquidity profile as strong and expect the company to cover all anticipated cash outflows over the next 12-18 months, despite significant cash demands for project developments, portfolio investments, acquisitions, and short-term debt maturities.

Exhibit 11

Well-laddered debt maturity profile where upcoming maturities relate to commercial paper

in SEK millions



Sources: Moody's Ratings and Company filings

Structural considerations

Hemsö's current debt is fully senior unsecured consisting of commercial paper, promissory notes (Schuldschein) and bonds all ranking pari-passu.

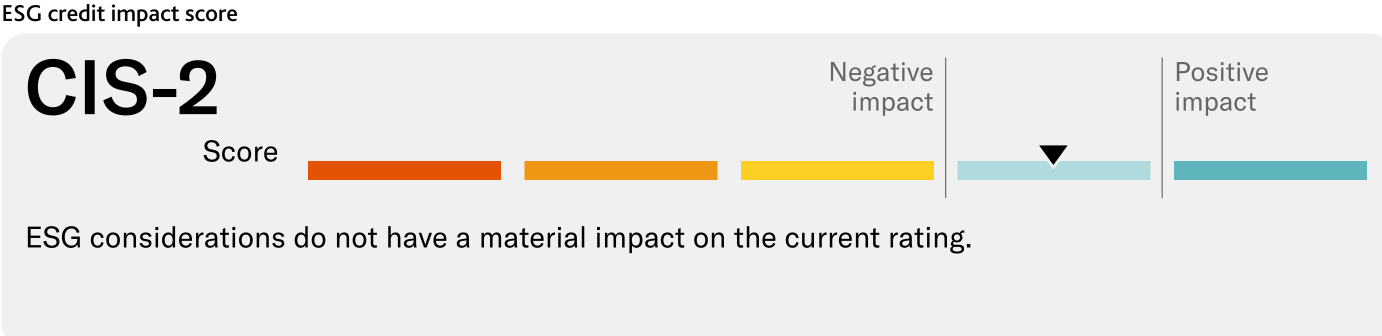
The company has several undrawn liquidity backup facilities available in the form of a subscription agreement by AP3 and seven committed revolving credit facilities (RCFs) by Swedish banks. The RCFs are secured against certain properties and would therefore rank above the existing debt structure if drawn.

ESG considerations

Hemso Fastighets AB's ESG credit impact score is CIS-2

Exhibit 12

ESG credit impact score

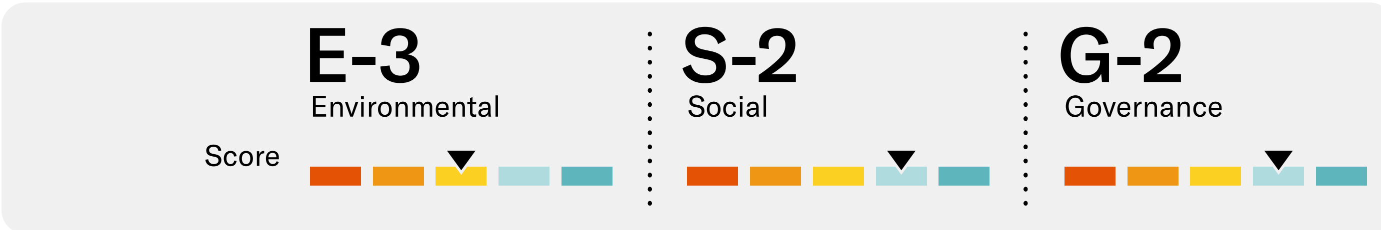


Source: Moody's Ratings

When evaluating companies' credit quality, we consider the impact of environmental, social, and governance (ESG) factors. Hemsö's exposure to carbon transition risk is moderate and comparable to most of its peers in the Nordic real estate industry, primarily due to the ongoing investments needed to improve the energy performance of its buildings.

Exhibit 13

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The company has a development pipeline with ongoing projects representing 5.5% of total assets, enabling it to enhance and upgrade the energy efficiency of its portfolio. Approximately 25% of Hemsö's portfolio by value has been constructed within the last six years, adhering to high energy efficiency standards and certifications. Existing properties are being partially upgraded with photovoltaic systems or geothermal energy systems. Hemsö is committed to achieving the United Nations Sustainable Development Goals relevant to its portfolio. The company aims to achieve net-zero greenhouse gas emissions across its entire value chain by 2040.

Social

Credit exposure to social considerations is low. Social infrastructure is a relatively new segment in the property market, characterized by supply and demand dynamics that we believe will remain favorable for landlords due to an aging population. Consequently, we view social infrastructure rental assets as relatively more stable compared to other real estate rental assets that face more structural challenges. Hemsö's real estate portfolio focuses on social and public real estate assets, such as education, healthcare, elderly care, and judicial buildings. The company thus contributes to the social infrastructure in the countries where it operates—Sweden, Finland, and Germany. Given that these countries are well-established democracies with high ESG scores, we view Hemsö's social contribution positively. This is especially true for the judicial segment, which provides essential infrastructure for law enforcement and correctional facilities.

Governance

The **G-2** reflects its GRI status and the owner's commitment to support their investment. The company is privately owned, with 85% held by AP3 and the remaining 15% by AB Sagax, a real estate company. Both are considered long-term investors, with AP3 regarding Hemsö as a core investment within its portfolio. While concentrated ownership is reflected in a score of 3 for Board Structure and Policies, its GRI status and broader assumption of support influences the rating positively. Despite being privately owned, the company publishes quarterly financial reports, ensuring transparency for other stakeholders and external parties. Hemsö's status as a government-related issuer (GRI) and the commitment of its owners to support their investments positively influence its corporate governance. Hemsö qualifies as a GRI because it is indirectly owned by the Swedish government through AP3. While concentrated ownership affects its score for Board Structure and Policies, its GRI status and the broader assumption of support positively impact its rating. Strong execution and a proven track record in managing one of the best portfolios in Sweden are additional supporting factors. The company has a publicly stated financial policy, including a maximum loan-to-value (LTV) target of 60%. We view this financial policy as credit negative due to its tolerance for high leverage. Strong execution and a good track-record of managing one of the best portfolios in Sweden are further supporting factors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The methodologies used in these ratings were REITs and Other Commercial Real Estate Firms and the Government-Related Issuers methodology. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

The current and forward-view scorecard-indicated outcome is in line with the current assigned BCA of baa1 and consequently the actual rating assigned is one notch higher at A3 reflecting Hemsö's GRI status.

Exhibit 14

Rating factors

Hemso Fastighets AB

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current FY 2024 prelim.		Moody's 12-18 month forward view	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets ($ billions)	8.0	Baa	8.5 - 8.7	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Aa	Aa	Aa	Aa
b) Operating Environment	Aa	Aa	Aa	Aa
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	A	A	A	A
b) Unencumbered Assets / Gross Assets	80.4%	A	81% - 82%	A
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	58.3%	Ba	56% - 57%	Ba
b) Net Debt / EBITDA	13.8x	Ca	13.1x - 13.3x	Ca
c) Secured Debt / Gross Assets	1.1%	Aa	1.1%	Aa
d) Fixed Charge Coverage	3.1x	Baa	3.4x - 3.5x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				A3
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	baa1			
b) Government Local Currency Rating	Aaa			
c) Default Dependence	Very High			
d) Support	Moderate			
e) Actual Rating Assigned	A3			

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Exhibit 15

Peer comparison

Hemso Fastighets AB

	Hemso Fastighets AB A3 Stable			Rikshem AB A3 Stable			Vasakronan AB A3 Stable			Deutsche Wohnen SE Baa1 Stable		
(in $ millions)	FY Dec-22	FY Dec-23	FY Dec-24	FY Dec-22	FY Dec-23	LTM Sep-24	FY Dec-22	FY Dec-23	LTM Sep-24	FY Dec-22	FY Dec-23	LTM Jun-24
Gross Assets	8,582	8,854	8,005	6,227	6,042	6,000	20,011	19,320	19,391	33,629	30,031	28,531
Unencumbered Assets / Gross Assets	81.2%	81.5%	80.4%	74.9%	71.8%	73.6%	78.5%	80.3%	79.7%	38.8%	44.9%	0.0%
Total Debt + Preferred Stock / Gross Assets	56.5%	58.1%	58.3%	45.0%	48.6%	47.6%	39.6%	42.4%	41.2%	29.1%	31.8%	32.1%
Net Debt / EBITDA	17.1x	14.4x	13.8x	17.7x	15.9x	14.6x	13.2x	11.5x	10.8x	14.4x	12.7x	11.0x
Secured Debt / Gross Assets	0.0%	1.1%	1.1%	7.0%	9.2%	9.2%	5.3%	5.7%	5.7%	17.3%	18.2%	18.3%
Fixed-Charge Coverage	4.2x	2.9x	3.1x	3.5x	2.6x	2.5x	4.2x	3.3x	3.1x	4.6x	4.4x	4.8x

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.
Source: Moody's Financial Metrics™

Exhibit 16

Moody's–adjusted debt reconciliation

Hemso Fastighets AB

(in SEK millions)	2020	2021	2022	2023	2024
As reported debt	**38,651.0**	**42,499.0**	**49,567.0**	**50,823.0**	**52,185.0**
Lease liability	605.0	759.0	932.0	988.0	1,005.0
Moody's-adjusted debt	**39,256.0**	**43,258.0**	**50,499.0**	**51,811.0**	**53,190.0**

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.
Source: Moody's Financial Metrics™

Exhibit 17

Moody's–adjusted EBITDA reconciliation

Hemso Fastighets AB

(in SEK millions)	2020	2021	2022	2023	2024
As reported EBITDA	**4,693.0**	**10,592.0**	**3,842.0**	**(2,022.0)**	**3,457.0**
Pensions	8.4	9.1	8.4	7.8	7.8
Unusual Items	(2,315.0)	(7,808.0)	(874.0)	5,501.0	332.0
Non-Standard Adjustments	-	(160.0)	(61.0)	-	-
Moody's-adjusted EBITDA	**2,386.4**	**2,633.1**	**2,915.4**	**3,486.8**	**3,796.8**

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.
Source: Moody's Financial Metrics™

Exhibit 18

Overview on selected historical Moody's-adjusted financial data

Hemso Fastighets AB

(in SEK millions)	2020	2021	2022	2023	2024
INCOME STATEMENT					
Revenue	3,293	3,639	4,097	4,859	5,138
EBITDA	2,386	2,633	2,915	3,487	3,797
EBIT	2,373	2,618	2,898	3,466	3,781
Interest Expense	600	534	700	1,202	1,216
BALANCE SHEET					
Cash & Cash Equivalents	891	687	526	1,593	866
Total Debt	39,256	43,258	50,499	51,811	53,190
Net Debt	38,365	42,571	49,973	50,218	52,324
CASH FLOW					
Funds from Operations (FFO)	1,588	1,985	2,066	2,323	2,390
Cash Flow From Operations (CFO)	1,469	2,499	2,478	1,948	2,076
Capital Expenditures	(5,682)	(7,557)	(6,644)	(3,176)	(3,482)
Dividends	(860)	(905)	(1,072)	(1,155)	(1,173)
Retained Cash Flow (RCF)	728	1,080	994	1,168	1,217
RCF / Debt	1.9%	2.5%	2.0%	2.3%	2.3%
Free Cash Flow (FCF)	(5,073)	(5,963)	(5,238)	(2,383)	(2,579)
FCF / Debt	-12.9%	-13.8%	-10.4%	-4.6%	-4.8%
PROFITABILITY					
% Change in Sales (YoY)	8.1%	10.5%	12.6%	18.6%	5.7%
EBIT margin %	72.1%	71.9%	70.7%	71.3%	73.6%
EBITDA margin %	72.5%	72.4%	71.2%	71.8%	73.9%
INTEREST COVERAGE					
(FFO + Interest Expense) / Interest Expense	3.6x	4.7x	4.0x	2.9x	3.0x
EBIT / Interest Expense	4.0x	4.9x	4.1x	2.9x	3.1x
EBITDA / Interest Expense	4.0x	4.9x	4.2x	2.9x	3.1x
LEVERAGE					
Debt / EBITDA	16.4x	16.4x	17.3x	14.9x	14.0x
Net Debt / EBITDA	16.1x	16.2x	17.1x	14.4x	13.8x

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Full year 2024 data are preliminary numbers.

Source: Moody's Financial Metrics™

Ratings

Exhibit 19

Category	Moody's Rating
HEMSO FASTIGHETS AB	
Outlook	Stable
Issuer Rating -Dom Curr	A3

Source: Moody's Ratings

REPORT NUMBER 1436158

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454