



CATELLA REAL ESTATE DEBT INDICATOR

October 2014

The Catella Real Estate Debt Indicator, CREDI, is a market sentiment indicator for the Swedish real estate debt financing market. CREDI consists of two parts: firstly a quarterly current and forward-looking survey of Swedish listed property companies and banks providing real estate financing on the Nordic market; and secondly a set of indices based on publicly available data illustrating the aggregate change in credit conditions such as leverage, duration and cost of debt for the Swedish listed property sector.

Peak debt?

The CREDI Main index fell another 9.7 index points to 56.6 from the June survey to this October survey. The correction is primarily driven by polled lenders and borrowers' expectations that access to financing will remain at the same level in the coming three months.

Investor's risk appetite has grown and access to financing has continued to improve. According to the banks and listed property owners that take part in the CREDI survey in October, access to financing continued to improve over the last three months and the margins charged by lending banks continued to contract on average.

However, the polled lenders and borrowers also indicated that they expect the debt financing sentiment to remain at the same level in the coming three months, as shown by the forward looking index (Expectation) now balancing at 50.0 (59.8). The lowered expectations do correlate with the general sentiment in the past weeks with falling stock markets, lowered long-term growth expectations and increased risk of deflation and recession in the Eurozone.

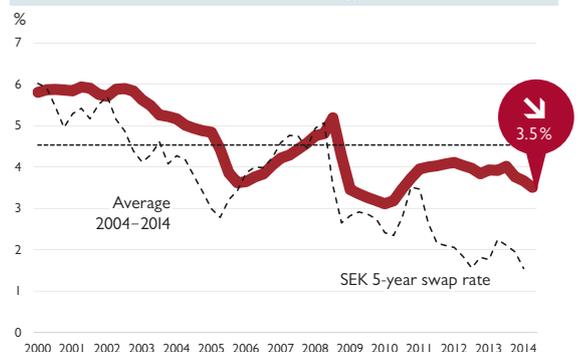
Still, the financing climate is and has been very positive. The listed property sector average loan to value increased slightly and amounted to nearly 57 per cent in Q2 2014. This is in line with the trend from the previous quarter and 2013. The average interest rate for the surveyed companies dropped to 3.5 per cent, which partly is a result of decreasing interest rates. In Q2 2014 the outstanding volume of corporate bonds and secured bonds issued by the listed companies covered by CREDI amounted to 14 per cent of their total outstanding debt.

The property transaction market has continued to show higher volumes during Q3 2014 compared to the same period last year. The October survey results support the general sentiment of a good access to financing but also indicate that access to financing may not expand further in the coming three months.

CREDI Main index

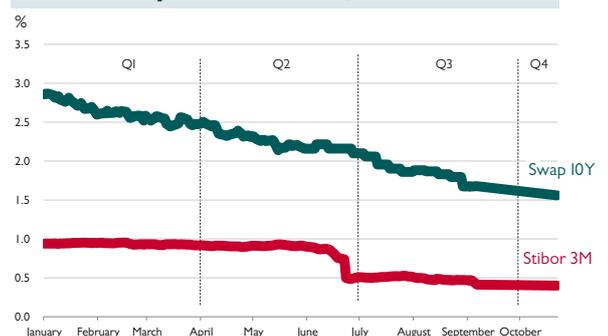


CREDI Indices – Q2 Average interest rate¹



¹ Average interest rate on outstanding debt portfolio, including funding costs and effects of derivatives if reported as such.

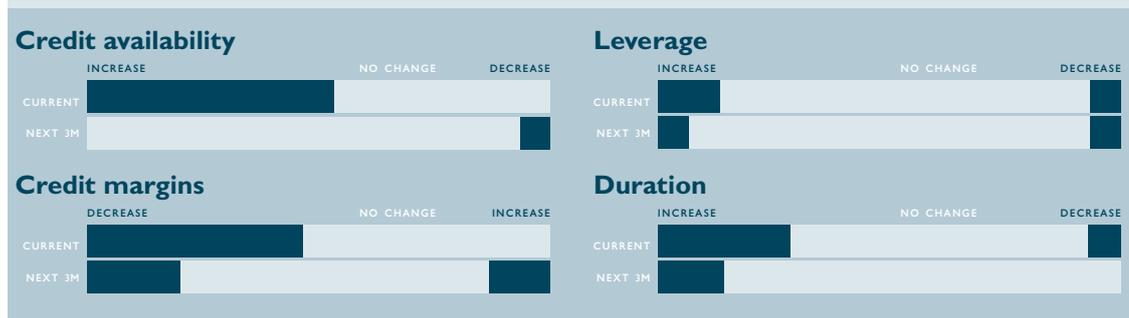
Swedish key interest rates, 2014





CREDI Sub-indices

CREDI Sub-indices present survey data question by question. The bars represent the distribution of actual answers per question, separated into the components Current Situation and Expectations for the coming three months.



CREDI Survey

The Main index fell another 9.7 index points to 56.6 from the June survey to this October survey. The correction is primarily driven by polled lenders and borrowers' expectations that access to financing will remain at the same level in the coming 3 months.

Main index components

Behind the 9.7 index point contraction in the Main index was a 9.7 point drop in the Current Situation index to 63.1 while the Expectations index dropped 9.8 to 50.0 from the June survey. Looking at the development over the past twelve months the Main index stands 12.7 basis points lower than a year ago.

The Current Situation index contracted 11.0 points while the Expectations index has declined 14.4 index points over the past twelve months. This hints at a possible peak in debt market sentiment in the survey. Banks have, on average, become more negative about the debt financing outlook (Expectations index) in the last twelve months while the sentiment of property owners' has dropped from 62.5 to 55.0 in the same time.

Sub-indices

The CREDI sub-indices are no longer only in the zone of credit expansion (above 50). In particular, the 16.1 point drop in the expectations for credit availability sub-index to 45.0 is in the zone of credit contraction. Still, the other sub-indices concerning current credit availability and both current and expectations on credit margins, leverage and duration remained at 50.0 or above in the zone of credit expansion. Overall, the CREDI sub-indices therefore still support continuing good access to financing.

About the CREDI Survey

CREDI is a market sentiment indicator for the Swedish real estate debt financing market. The indicator is based in part on a quarterly current and forward-looking survey of Swedish listed property companies, and banks providing real estate financing on the Nordic market.

The CREDI Survey contains five questions about recent changes in credit availability and credit conditions, and five questions about expectations regarding changes in credit availability and credit conditions in the next three months.

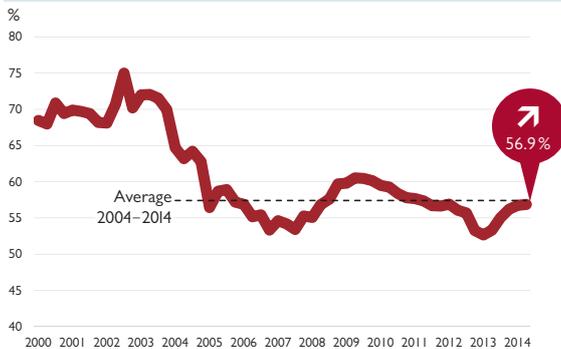
The CREDI Survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change"-answer equals 50. Consequently, the turning point in sentiment is 50 and any reading below indicates more difficult financing conditions while any reading above indicates less difficult financing conditions.

Separate indices are aggregated per respondent category. The Main Index and its components are then computed as an unweighted average of these two categories – ensuring that the answers of borrowers and lenders are equally weighted in the Main Index.

CREDI Indices

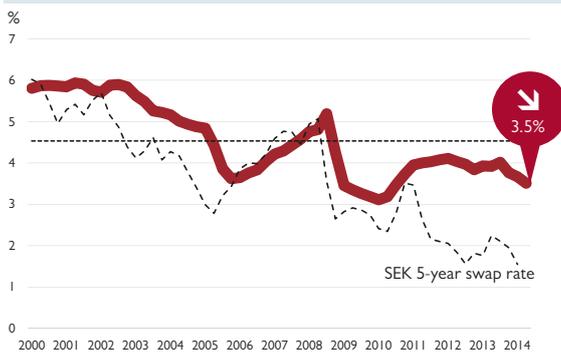
The **CREDI Indices** show an increase to **56.9 per cent** in the loan to value for the listed sector in Q2 2014, this is line with the trend of increasing leverage seen in both 2013 and from the previous quarter in 2014. The average interest rate has dropped again to a level of **3.5 per cent** and the credit term and fixed interest term have both continued their downward trends with a small decrease.

Listed sector Q2 average loan to value¹



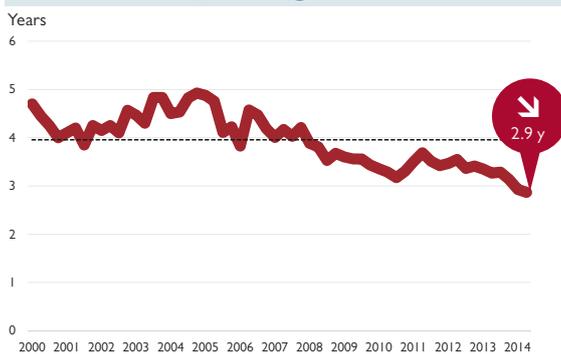
In Q2 2014 the average loan to value increased 0.2 percentage points to 56.9 per cent from a quarter earlier, thus strengthening the trend of increasing leverage observed since 2013. The average loan to value for the surveyed companies is approaching the average loan to value of 57.4 per cent in 2004–2014.

Listed sector Q2 average interest rate²



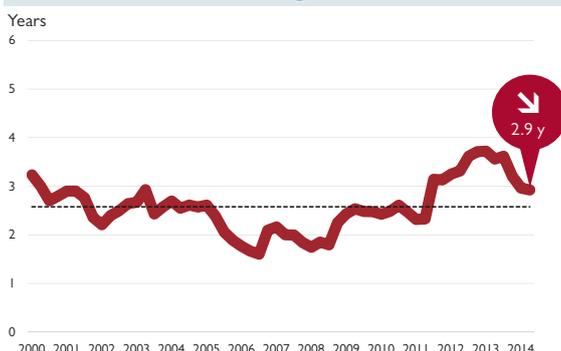
The listed average interest rate amounted to 3.5 per cent, a decrease of 0.2 percentage points from Q1 2014. The lower cost of debt could partly be explained by decreasing credit margins on bank lending and bonds and partly on lower interest rates.

Listed sector Q2 average fixed credit term³



The average fixed credit term amounts to 2.9 years, a decrease of 0.1 years from Q2 2014. The reading remains at the lowest level since Q1 2000. The development indicates that the borrowers estimate the refinancing risk to have dropped slightly.

Listed sector Q2 average fixed interest term³



The average fixed interest term fell to 2.9 years, a decrease of 0.2 years from the earlier quarter. This indicates a shift away from the trend of an increasing fixed interest term, which has been observed in previous years. The decrease implies that borrowers expect the interest rate to stay at a low level or drop.

About the CREDI Indices

CREDI is a market sentiment indicator for the Swedish real estate debt financing market. The indicator is based in part on a set of indices illustrating the aggregate change in leverage, duration and cost of debt for the Swedish listed property sector.

The CREDI Indices are based on publicly available data collected from the financial reports published by the Swedish listed property companies.

Each data point in the CREDI Indices represents the aggregate figure for the Swedish listed property companies. Each company is weighted equally in order to fully reflect the company's individual financing strategy and financing situation. Start date is set as Q1 2000.

The intention with the CREDI Indices is to track trends and changes in real estate financing by aggregating publicly available data.

Notes

- 1 Interest bearing debt on property, excluding cash, divided by property value.
- 2 Average interest rate on outstanding debt portfolio, including funding costs and effects of derivatives if reported as such.
- 3 Average maturity of outstanding debt portfolio excluding effects of derivatives, and excluding loan commitments if reported as such.



Catella Corporate Finance is a leader on the Swedish market for advisory services in connection with property transactions and property-related services within debt and equity capital markets. Catella Corporate Finance has some 40 employees and offices in Stockholm, Gothenburg and Malmö. The company is a part of the Catella Group.



CREDI is a market sentiment indicator for the Swedish real estate debt financing market.

If you wish to subscribe to future editions of CREDI, please e-mail CREDI@catella.se.

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