CREDI

CATELLA REAL ESTATE DEBT INDICATOR

Catella

September 2012

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.

Let up on credit markets show little impact on sentiment

Catella's second edition of the CREDI indicator shows negative sentiment carried over into August from May. The easing of banks' funding costs during the summer have yet to spill over on market participants' view of overall credit availability with both lenders and borrowers remaining negative.

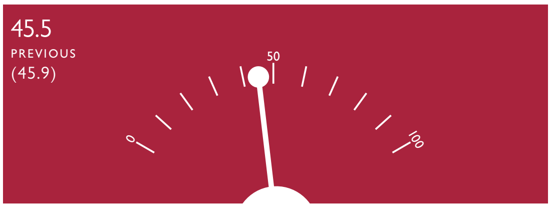
The CREDI Main index is virtually unchanged at 45.5 in the survey carried out in late August (revised May 45.9). Thus, the overall index stays below 50 indicating a contracting real estate financing market.

Borrowers and lenders differ on the expected development of credit availability and credit terms in the coming three months. Banks are bearish on the development of real estate lending, despite their positive stance on their own funding situation. However, the surveyed real estate companies are neutral or positive on the development of credit availability and terms for the next three months. In our view, the growth in financing solutions other than straight bank debt is supporting borrower confidence. In August alone more than SEK 1.1 billion in secured and unsecured real estate bonds were issued by the listed Swedish real estate sector.

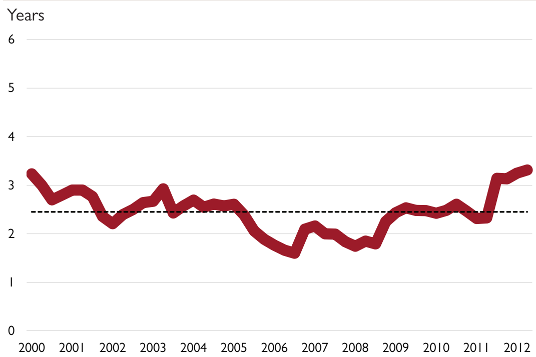
The CREDI Indices show a continued increase in average fixed interest term in Q2 2012. During Q2 2012, swap rates continued to decline and the listed property companies continued to utilise the low swap rates as an opportunity to further increase their overall fixed interest term.

Average fixed credit term increased slightly in Q2 2012 while loan to values continued to decrease. A small decrease in average interest rate has softened the upward trend seen in each quarter since 2010.

CREDI Survey – Main Index

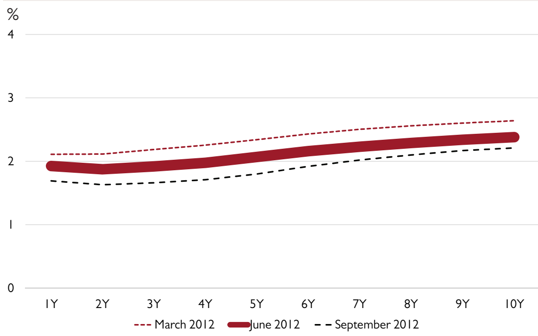


CREDI Indices – Fixed interest term[1]



1 Average maturity of outstanding debt portfolio including effects of derivatives, and excluding loan commitments if reported as such.

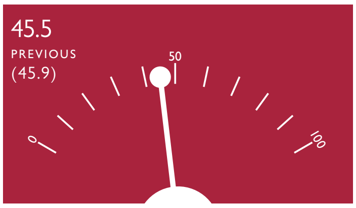
SEK swap rates 1Y–10Y



CREDI Survey

The CREDI Main Index is virtually unchanged at 45.5 (revised May 45.9) in the new survey carried out in late August. This means that the CREDI Main Index stays below 50 indicating a contracting real estate financing market.

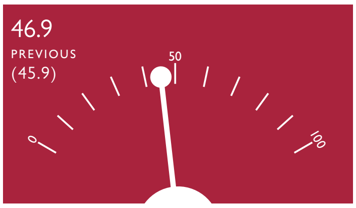
CREDI Main Index



Banks
41.4
(43.6)

Corporates
49.5
(48.3)

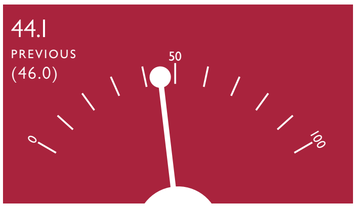
Current Situation



Banks
45.7
(47.1)

Corporates
48.1
(44.6)

Expectations



Banks
37.1
(40.0)

Corporates
51.0
(52.0)

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.

Main Index components

Examining the Current Situation and the Expectations components of the Main Index reveals that real estate market participants remain negative on both the performance of the real estate financing market from May to August as well as their expectations for the next three months. The participants' view of the Current Situation has improved slightly at 46.9 (45.9). The outlook for access to debt financing in the next three months has weakened as the Expectations component of the Main Index dropped to 44.1 (46.0).

Banks' cost of funding

The trend on debt capital markets during the summer has been a small but marked easing of banks' access to funding. CDS spreads on Nordic banks show a period of declining default risk premia from June after a two month period of increasing spreads. Looking at debt issuance by Swedish banks during the period there is a drop in bond pricing in August compared to May/June. In the CREDI Survey this is reflected in the Banks' funding Current Situation sub-index which remains well above 50 at 71.4 (71.4). Still, the outlook remains below neutral with the Expectations component climbing to 42.9 (35.7).

Overall Credit availability

The positive development in bank funding seems yet to spill over on market participants' perception of overall credit availability with both lenders and borrowers remaining negative on the Current Situation. However, looking at the Expectations component for overall Credit availability (see CREDI Sub-indices, Credit availability above) the sentiment is improving with the September figure climbing to 46.4 (42.9) on the back of a pick-up in sentiment from participating banks.

Debt markets put to the test

The resilience of debt markets will be tested again in September as the German constitutional court will deliver its verdict on the legality of the European bail-out fund ESM. An approval of the ESM will enable the ECB to inject more capital into debt markets.

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.

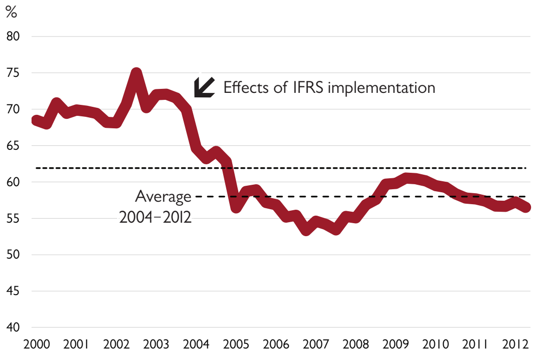
The CREDI survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change"-answer equals 50. Consequently, 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.

Starting in CREDI September 2012 the 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. Because of this the index figures from CREDI May 2012 have been revised and the revised data is used exclusively in this edition.

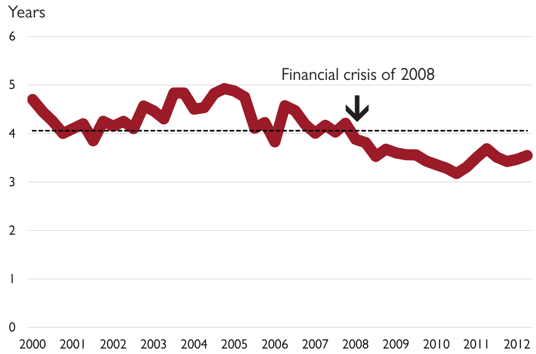
CREDI Indices

The CREDI Indices show a continued increase in average fixed interest term in Q2 2012. Average fixed credit term increased slightly while loan to values continued to decrease. A small decrease in average interest rate in Q2 2012 has softened the upward trend seen in each quarter since 2010.

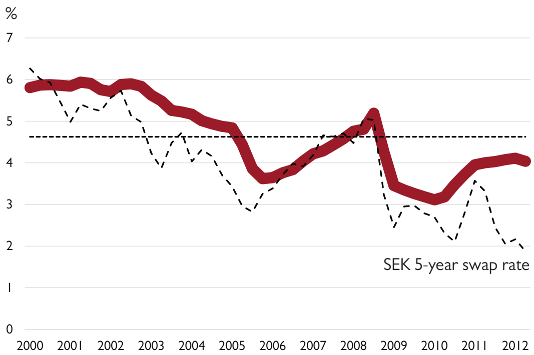
Listed sector average loan to value[1]



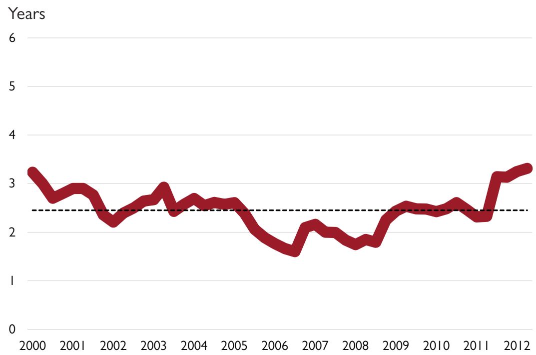
Listed sector average fixed credit term[3]



Listed sector average interest rate[2]



Listed sector average fixed interest term[4]



Listed sector average loan to value[1]

In Q2 2012, the average loan to value amounted to 56.5 per cent, compared to 57.3 per cent a quarter earlier. The decreasing trend in loan to values seen since the end of 2009 is thus still intact. Part of the decline in Q2 2012 might be explained by more conservative bank lending.

Listed sector average interest rate[2]

In Q2 2012, the average interest rate amounted to 4.0 per cent, down 0.1 percentage points from Q1 2012. The trend of increasing interest rates seen in each quarter since 2010 has been weakened. One explanatory factor of the development is the decline in underlying interest rates during Q2 2012. The total cost of lending for the surveyed companies remains below the average cost of 4.6 per cent in 2000–2012.

Listed sector average fixed credit term[3]

In Q2 2012, the average fixed credit term amounted to 3.5 years. The fixed credit term has remained around this level in recent quarters and has stabilised after the overall downward trend seen after the financial crisis of 2008. The cost of borrowing remained high on longer maturities due to lenders' increased funding costs, thus making longer maturities less attractive. The average fixed credit term remains below the average term of 4.1 years in 2000–2012.

Listed sector average fixed interest term[4]

By the end of Q2 2012, the average fixed interest term amounted to 3.3 years, the highest reading seen since the start in Q1 2000. During Q2 2012, swap rates continued to decline and the listed property companies continued to utilise the low swap rates as an opportunity to further increase their overall fixed interest term. Thus, the distinct trend over the past year that many listed property companies have increased the fixed interest term in their debt portfolios remain intact.

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 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.

4 Average maturity of outstanding debt portfolio including effects of derivatives, and excluding loan commitments if reported as such.

-------- Average 2000–2012

CATELLA

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 50 employees and offices in Stockholm, Gothenburg and Malmö. The company is a part of the Catella Group.

CREDI
CATELLA REAL ESTATE DEBT INDICATOR

CREDI is a market sentiment indicator for the Swedish real estate debt financing market. The next edition of CREDI will be published in November 2012.

If you wish to subscribe to future editions of CREDI, please e-mail CREDI@catella.se. Published editions are available online at www.catellaproperty.se.

Contact details

Catella Corporate Finance
P.O. Box 5130, Birger Jarlsgatan 6
SE-102 43 Stockholm, Sweden
Phone: +46 8 463 33 10
www.catellaproperty.se

Daniel Anderbring
Phone: +46 8 463 33 60
Mobile: +46 70 846 47 86
E-mail: daniel.anderbring@catella.se

Niclas Forsman
Phone: +46 8 463 34 08
Mobile: +46 70 392 34 08
E-mail: niclas.forsman@catella.se

This publication is provided for information purposes only and is not intended as an offer or solicitation for the purchase or sale of any financial instrument in any jurisdiction. The information contained herein has been obtained from public sources and through a quarterly current and forward-looking survey and is believed by Catella Corporate Finance to be reliable but no representation is made as to its accuracy or completeness. The views reflected herein are subject to change without notice.

Catella Corporate Finance will not update, modify or amend the information in this publication or otherwise notify a reader thereof in the event that any matter stated herein changes or subsequently becomes inaccurate. Any references to past performance are not a reliable indicator of future performance.

Neither Catella Corporate Finance, nor any member of the Catella Group, accept any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents. Recipients of this publication outside Sweden should take note of and observe any applicable legal requirements.

This publication is subject to copyright protection and may not be reproduced or distributed to any other person for any purpose. Please cite source when quoting. All rights reserved.

The figures in this publication have been rounded, whereas calculations have been conducted without rounding. Thus, certain tables might appear to be incorrectly aggregated.

This disclaimer is governed by Swedish law.