



## CATELLA REAL ESTATE DEBT INDICATOR

March 2013

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.

# Real estate credit sentiment firmly into positive territory

**The slight pick-up in sentiment indicated in the Q4 installment of the CREDI survey has since snowballed into quite a positive outlook for real estate financing on the Swedish market.**

**The Main Index leaps to 55.9 with Expectations contributing 53.9 and Current Situation rising five points to 57.8.**

In the first edition of CREDI in 2013 we are seeing confirmation of the positive commercial real estate financing trend that we have picked up on in our contacts with lenders and borrowers during the first months of the year.

Banks are not only indicating an increased willingness to lend but new or previously absent lenders are also entering and re-entering the Swedish market in 2013. Strong competition among lenders on the biggest European markets is motivating German banks to target the Nordics. We expect higher cross-border activity on the transaction market to further boost access to cross-border lending.

The listed property sector has continued on the positive path of lower average cost of debt and higher solvency in the final quarter of 2012. Among the CREDI Indices, tracking the Swedish listed property sector, average cost of debt dropped to 3.8 per cent in Q4 2012 – breaking the trend of higher cost of debt established since early 2010.

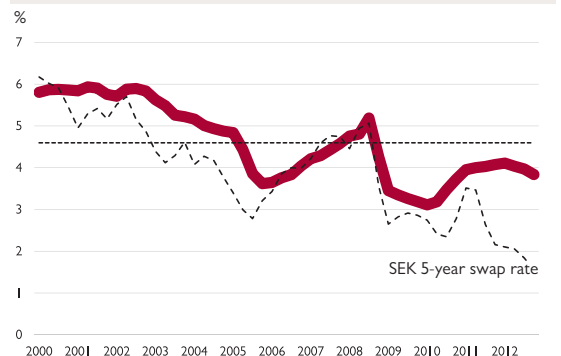
The alternative financing trend remains strong with several new bond issues, as well as new issuers coming to the market. The outstanding volume of bonds issued by the listed companies covered by CREDI tripled year-on-year with an issued volume of SEK 10 billion of corporate bonds and secured bond since the start of 2012.

Improved access to both bank financing and alternative financing paired with the strongest balance sheets since 2007 sets the listed companies up for an increase in transaction activity in 2013.

### CREDI Survey – Main Index

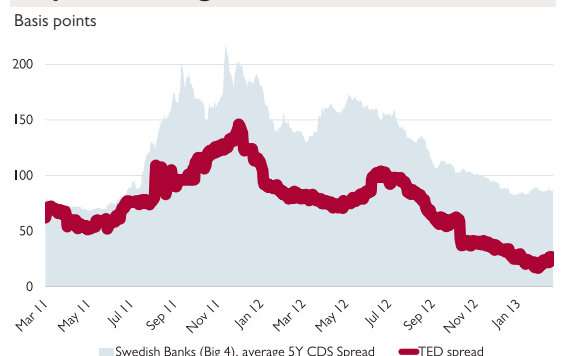


### CREDI Indices – Average interest rate<sup>1</sup>



<sup>1</sup> Average interest rate on outstanding debt portfolio, including funding costs and effects of derivatives if reported as such. --- Average 2000–2012

### Implied funding costs for Swedish banks



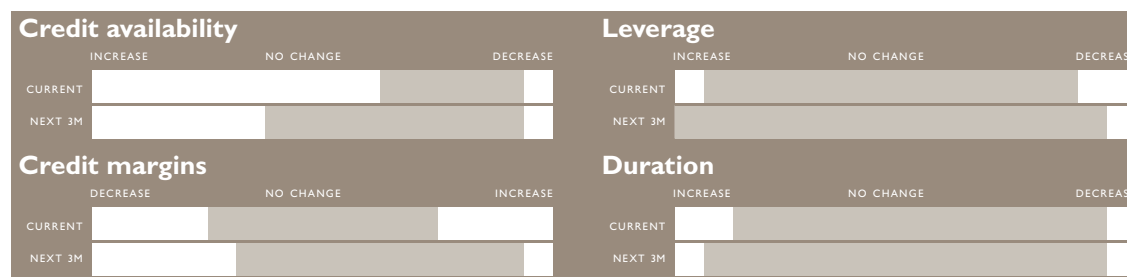
# CREDI Survey

In the March 2013 edition of the CREDI survey we find confirmation that the positive sentiment indicated in the December 2012 survey has improved further. The Main Indicator rises to 55.9 with Expectations contributing 53.9 and Current Situation rising five points to 57.8.



## 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

In the first edition of CREDI in 2013 we are seeing confirmation of the positive commercial real estate financing trend that we have picked up on in our contacts with lenders and borrowers during the first months of the year. Respondents in the survey, on average, expects access to bank financing to improve further in Q2 2013 and that credit terms will improve marginally.

Lenders and borrowers agree that credit availability has improved in the past three months, but only borrowers expect overall credit availability to improve going forward while banks have a neutral stance with the index remaining at 50 from the December survey.

### Marginal easing of credit terms

Respondents agree on the easing of credit terms (margins, leverage and duration) but remain divergent on the expectations about where credit margins are going. While borrowers expect margins to contract further in the next three months lenders remain cautious.

### Increased willingness to lend

Banks are not only indicating an increased willingness to lend but new or previously absent lenders are also entering and re-entering the Swedish market in 2013. Strong competition among lenders on the biggest European markets is motivating German banks to target the Nordics. We expect higher cross-border activity on the transaction market to further boost access to cross-border lending.

### 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.

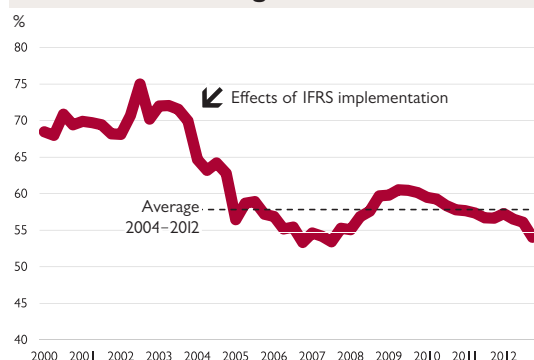
The CREDI survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change"-answer equals 50. Consequently,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

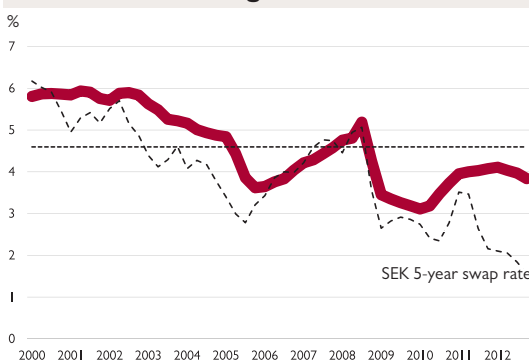
# CREDI Indices

The **CREDI Indices** show a drop in average interest rate for the listed sector in Q4 2012. The trend of increasing interest rate costs established since early 2010 is thus broken. Loan to values for the listed sector continued to decrease in Q4 2012 while average fixed interest term increased further.

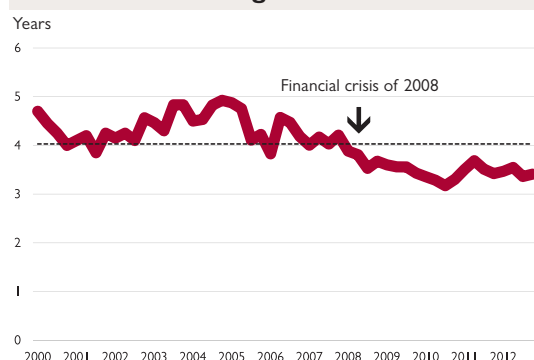
### Listed sector average loan to value<sup>1</sup>



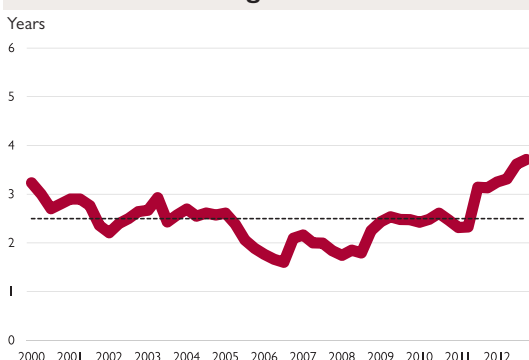
### Listed sector average interest rate<sup>2</sup>



### Listed sector average fixed credit term<sup>3</sup>



### Listed sector average fixed interest term<sup>4</sup>



----- Average 2000–2012

### Listed sector average loan to value<sup>1</sup>

By the end of Q4 2012, the average loan to value amounted to 54.0 per cent, compared to 56.1 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 Q4 2012 might be explained by more conservative bank lending. The average loan to value for the surveyed companies remains below the average loan to value of 57.8 per cent in 2004–2012.

### Listed sector average fixed credit term<sup>3</sup>

In Q4 2012, the average fixed credit term amounted to 3.4 years, unchanged from Q3 2012. The fixed credit term has stabilised after the overall downward trend seen after the financial crisis of 2008. Higher funding costs for lenders on longer maturities still makes shorter maturities more attractive for the borrower in terms of pricing.

### Listed sector average interest rate<sup>2</sup>

In Q4 2012, the average interest rate amounted to 3.8 per cent, down 0.2 percentage points from Q3 2012, thus breaking the trend of higher cost of debt established since early 2010. Part of the development in Q4 2012 could be explained by declining underlying interest rates. The total cost of lending is well below the average cost of 4.6 per cent in 2000–2012.

### Listed sector average fixed interest term<sup>4</sup>

By the end of Q4 2012, the average fixed interest term amounted to 3.7 years, up 0.1 years from Q3 2012. The trend with increasing fixed interest term thus remains intact. Worth to notice is that the average fixed interest term continues to exceed the fixed credit term. During Q4 2012, swap rates continued to decline and many listed property companies continued to utilise the low swap rates to increase their overall fixed interest term.

### 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.
- 4 Average maturity of outstanding debt portfolio including 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 50 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. The next edition of CREDI will be published in June 2013.

If you wish to subscribe to future editions of CREDI, please e-mail [CREDI@catella.se](mailto:CREDI@catella.se). Published editions are available online at [www.catellaproperty.se](http://www.catellaproperty.se).

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