CREDI®

CATELLA

CATELLA REAL ESTATE DEBT INDICATOR

March 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.

As good as it gets?

In the first quarter of 2014 the credit market sentiment remains strong despite a marginal drop of 1.6 index points to 67.7.
The Current Situations index has moved clearly ahead of the Expectations index which indicates a possible peak or plateau in sentiment by early 2014.

The Swedish credit market has been very favourable to borrowers in the beginning of 2014. Overall access to financing has continued to improve and credit margins have continued to contract. It is evident from 2013 and 2014 transaction data that leveraged investors such as property funds and listed real estate companies are replacing institutions as the primary buyers in the segment above EUR 100 million in deal size. Landmark transactions such as the EUR 430 million acquisition of the Globen City retail and office portfolio by listed real estate company Klövern has attracted loan capital from both bank lenders and debt capital markets.

In the listed property sector average loan to value increased to 56 per cent in Q4 2013, thus definitely breaking the trend of deleveraging observed since 2009. In Q4 2013, the average interest rate dropped to 3.8 per cent, partly explained by decreasing credit margins on both bank lending and bonds.

The outstanding volume of corporate bonds and secured bonds issued by the listed companies covered by CREDI now amounts to 13 per cent of their total outstanding debt.

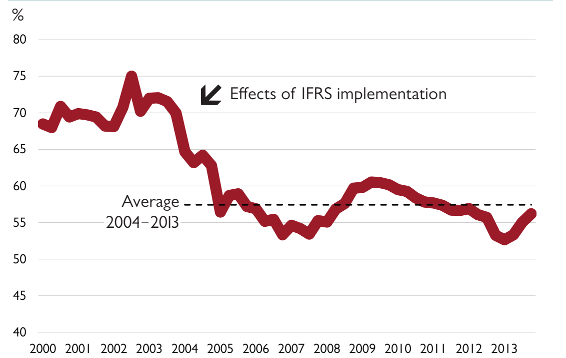
The combination of financing terms keeping in favour of borrowers, the access to equity capital (in both the listed RE sector and the property fund sector) in 2013 and 2014 and the recent contraction in overall interest rates sets the leveraged investors up for a continued high transaction activity in 2014.

CREDI Main Index

67.7

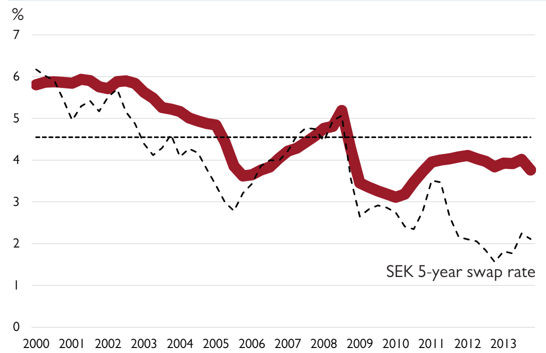
PREVIOUS
(69.3)

CREDI Indices – Average loan to value[1]



1 Interest bearing debt on property, excluding cash, divided by property value.

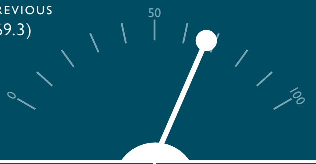
CREDI Indices – Average interest rate[2]



2 Average interest rate on outstanding debt portfolio, including funding costs and effects of derivatives if reported as such.
-------- Average 2000–2013

CREDI Main Index

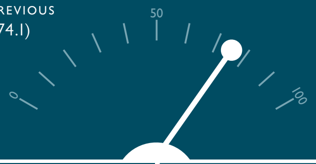
67,7
PREVIOUS
(69.3)



Banks	Corporates
66.1 (65.6)	69.3 (72.9)

Current Situation

75,6
PREVIOUS
(74.1)



Banks	Corporates
78.6 (71.9)	72.7 (76.4)

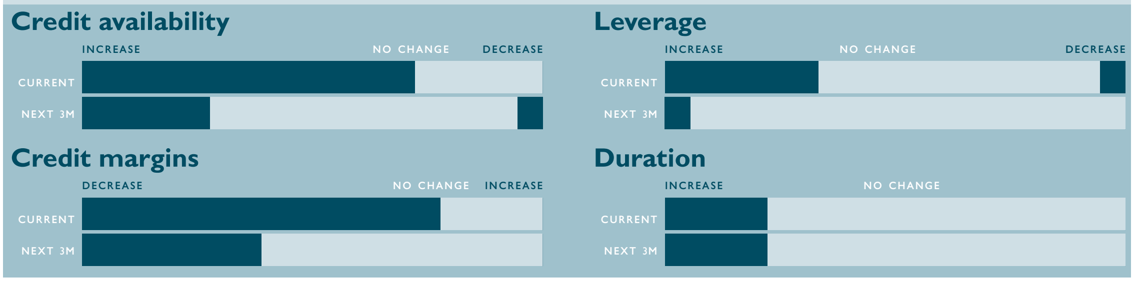
Expectations

59,7
PREVIOUS
(64.4)

Banks	Corporates
53.6 (59.4)	65.9 (69.4)

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**

In the first quarter of 2014 the credit market sentiment remains strong despite a marginal drop of 1.6 index points to 67.7. The Current Situations index has moved clearly ahead of the Expectations index which indicates a possible peak in sentiment by early 2014.

Main index components

In the March edition of CREDI we observe that both lenders and borrowers expect the positive loan financing trend to continue despite the marginal drop in the Main index. The lenders are actually a notch more positive about the credit environment than in the last survey while the borrowers are a notch less positive than in the previous survey.

The clearly visible difference in 2014 sentiment over third quarter 2013 is the divergence between the Current Situation index and the Expectations index. The Current Situations index records its highest reading to date at 75.6 while the Expectations index drops back to 59.7 – the lowest reading since March 2013. Although both index components score well within the zone of expansion (>50) a plateau or peak level is indicated.

Sub-indices

All sub-indices are firmly within the zone of credit expansion though some downward adjustments are noticed since the October 2013 survey.

The overall **credit availability** sub-index has dropped q/q and respondents are slightly less positive to both the current situation and the development over the coming months.

The **credit margin,** the loan **durations** and **leverage** ratios indicators only see marginal changes as well.

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.

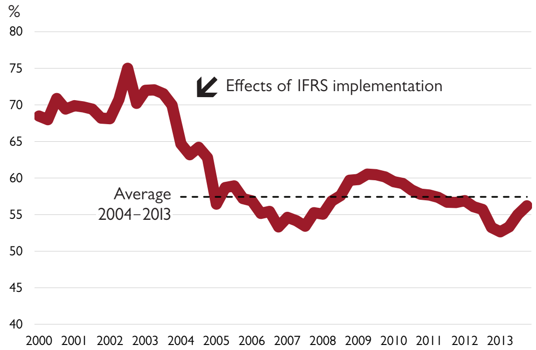
The CREDI Survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change"-answer equals 50. Consequently,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

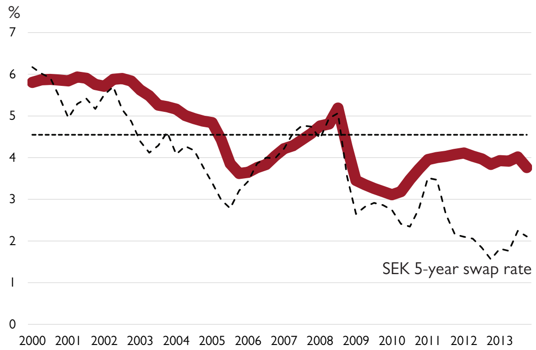
The CREDI Indices show an increase to 56 per cent in loan to value for the listed sector in Q4 2013, thus strengthening the trend of increasing leverage seen throughout 2013. Average interest rate dropped to 3.8 per cent, while credit term and fixed interest term continued to decrease slightly.

Listed sector average loan to value[1]



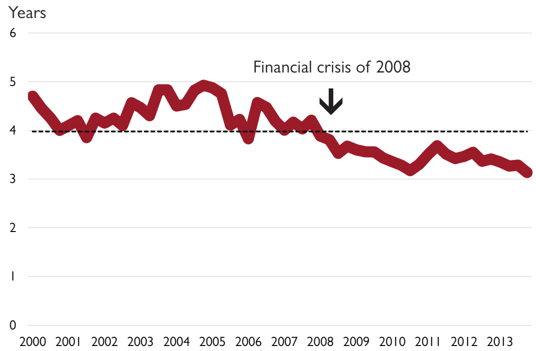
Average loan to value increased 1.2 percentage points to 56.2 per cent in Q4 2013 from a quarter earlier, thus strengthening the trend of increasing leverage seen throughout 2013. The development could partly be explained by a slightly higher risk appetite among banks. The average loan to value for the surveyed companies is slightly below the average loan to value of 57.6 per cent in 2004–2013.

Listed sector average interest rate[2]



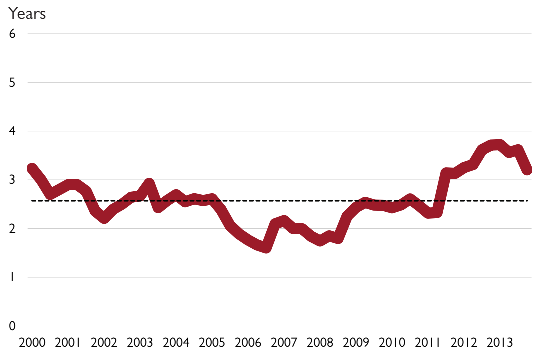
The average interest rate amounted to 3.8 per cent, a decrease of 0.2 percentage points from a quarter earlier. The lower cost of debt could partly be explained by decreasing credit margins on bank lending and bonds. The cost of debt is slightly below the 4 per cent level observed for the past years.

Listed sector average fixed credit term[3]



The average fixed credit term amounted to 3.1 years, down 0.2 percentage points from Q3 2013. Thus, the fixed credit term is once again back on the downward trend observed since 2008. The development could imply that borrowers to some extent have become a bit more confident in their ability to acquire financing.

Listed sector average fixed interest term[4]



By year end 2013, the average fixed interest term amounted to 3.2 years, down 0.4 percentage points from Q3 2013, a slight reversal of the distinct trend with increasing fixed interest term seen over the past years. During the second half of 2013 swap rates increased slightly which could partly explain why the surveyed companies to a less extent utilised derivatives 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.

-------- Average 2000–2013

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.

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CREDI is a market sentiment indicator for the Swedish real estate debt financing market. The next edition of CREDI will be published in June 2014.

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

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