



CATELLA REAL ESTATE DEBT INDICATOR

June 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.

Future still bright

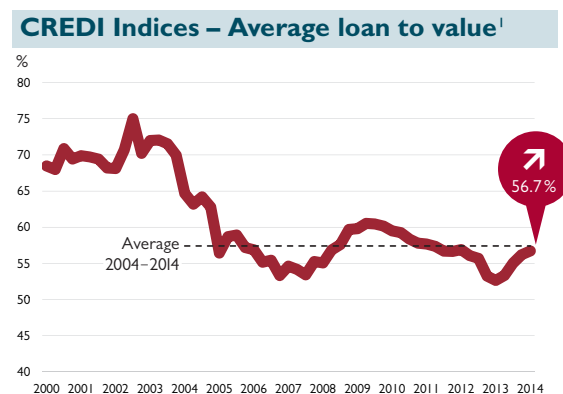
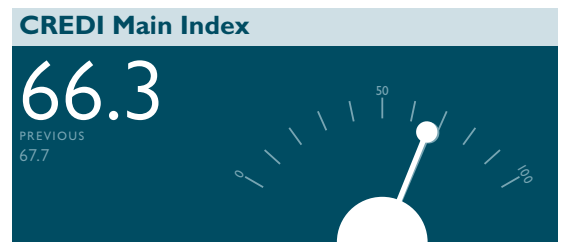
The Main index continues to signal an improving real estate credit market despite a 1.4 point drop to 66.3. A majority of both the lenders and borrowers polled think that access to financing has improved in the past three months and expect that it will continue to improve in the coming three months.

In the first five months of 2014 the debt financing sentiment on the Swedish property market has continued to be favourable towards borrowers. According to the banks and listed property owners that take part in the CREDI survey access to financing has improved in the last three months while the credit margins charged by lending banks' have continued to contract on average.

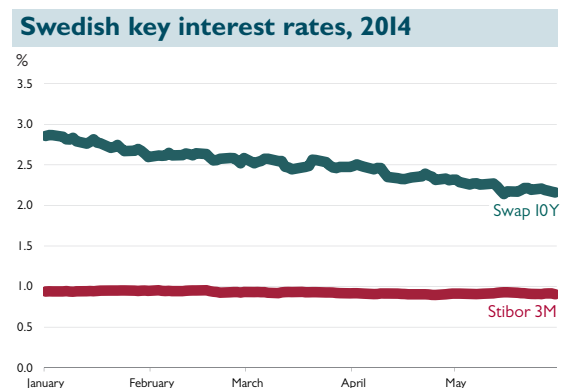
The forward looking index (Expectations) increased marginally to 59.8 (59.7) with both banks and property owners indicating that they expect the debt financing sentiment to improve further.

In the listed property sector average loan to value increased to 57 per cent in Q1 2014, in line with the trend observed since 2013. The average fixed credit term for the surveyed companies dropped to an all time low of three years in Q1 2014, implying that borrowers estimate that the refinancing risk of their loan portfolios has dropped. This is supported by the trend of raising debt financing through sources other than bank debt. Year to date, bond issues by the listed companies polled in the CREDI survey already total SEK 7.7 billion compared to SEK 9.6 billion for the full year 2013. The outstanding volume of corporate bonds and secured bonds issued by the listed companies covered by CREDI now amounts to 15 per cent of their total outstanding debt, up from 10 per cent a year ago.

A busy property financing market is also reflected in the activity on the property transaction market. In 2014 year to date transaction activity in terms of deal value has increased by more than 30 per cent compared to the same period in 2013. The positive outlook of the Q2 2014 CREDI supports a liquid property market also in coming months.



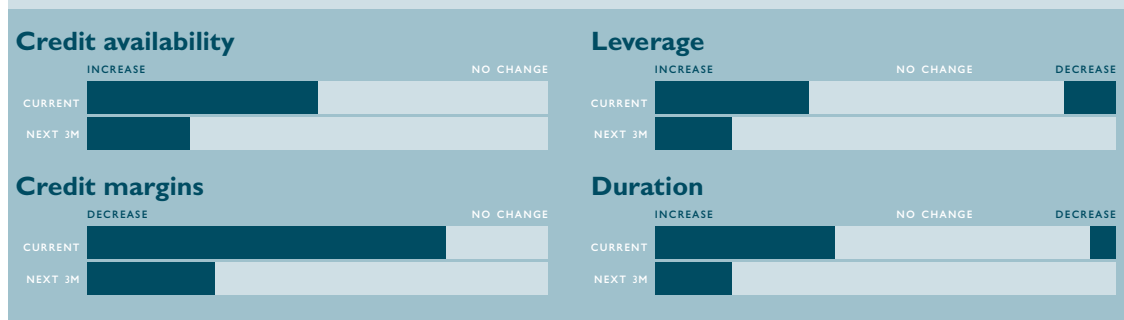
¹ Interest bearing debt on property, excluding cash, divided by property value.





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 continues to signal an improving real estate credit market despite a 1.4 point drop to 66.3. A majority of both the lenders and borrowers polled think that access to financing has improved in the past three months and expect that it will continue to improve in the coming three months.

Main index components

Behind the 1.4 point contraction in the Main index was a 2.8 point drop in the Current situation index to 72.8 while the Expectations index increased 0.1 points to 59.8 from the March survey. Looking at the development over the past twelve months the Main index stands 1.4 basis points higher than a year ago.

The Current situation index has improved 4.6 points while the Expectations index has contracted 1.9 index points over the past twelve months.

Banks have, on average, become more positive about the debt financing outlook (Expectations index) in the last twelve months while the sentiment of property owners has dropped from 71.6 to 62.5 in the same time.

Sub-indices

Like the Main Indices, all CREDI sub-indices remain within the zone of credit expansion (above 50). The biggest drop in sentiment was in the current situation for the overall credit availability sub-index that contracted to 73.1 while the expectations for the same sub-index increased slightly to 61.7. Regarding lending terms there were only marginal changes to current and future expectations for credit margin, loan duration and leverage ratios with two of the sub-indices increasing and four decreasing slightly.

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.

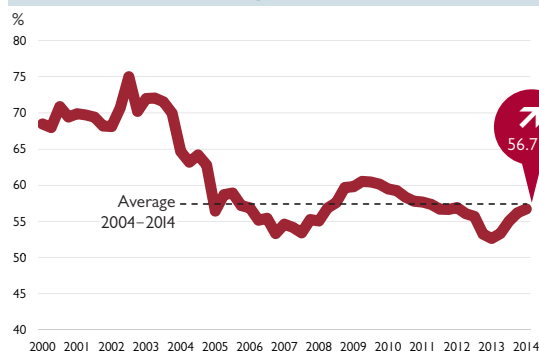
The CREDI Survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change"-answer equals 50. Consequently,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

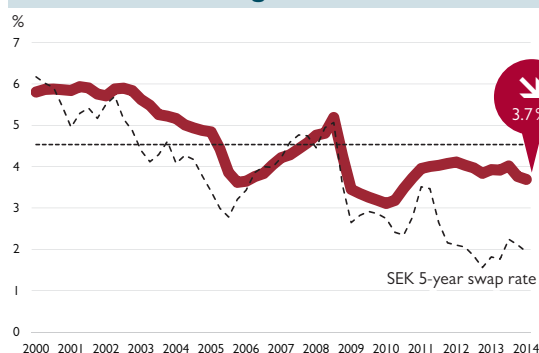
The **CREDI Indices** show an increase to 57 per cent in loan to value for the listed sector in Q1 2014, thus further strengthening the trend of increasing leverage observed since 2013. Fixed credit term reached a new all time low of three years, while average interest rate dropped to 3.7 per cent.

Listed sector average loan to value¹



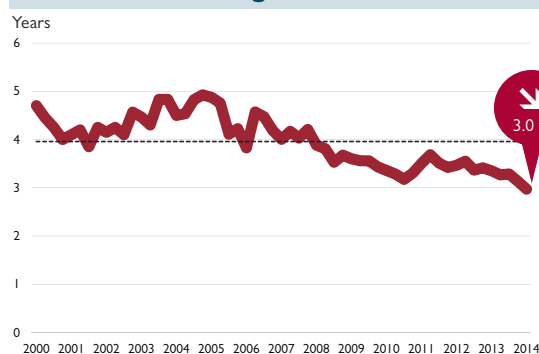
Average loan to value increased 0.5 percentage points to 56.7 per cent in Q1 2014 from a quarter earlier, thus strengthening the trend of increasing leverage observed since 2013. The development could partly be explained by a higher risk appetite among banks. The loan to value for the surveyed companies is approaching the average loan to value of 57.4 per cent in 2004–2014.

Listed sector average interest rate²



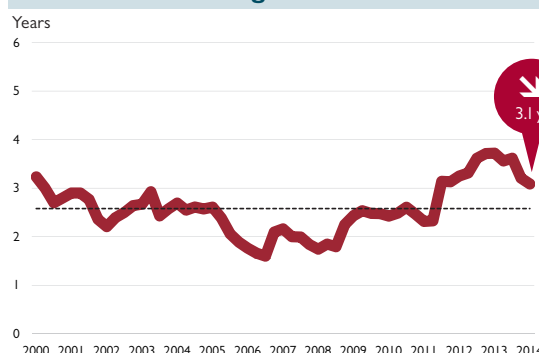
In Q1 2014, the average interest rate amounted to 3.7 per cent, down 0.1 percentage points from a quarter earlier. The lower cost of debt could partly be explained by decreasing credit margins on bank lending and bonds. The spread between the average interest rate and the 5-year swap rate remains at a historically high level.

Listed sector average fixed credit term³



In Q1 2014, the average fixed credit term amounted to 3.0 years, down 0.1 years from Q4 2013. The current reading is the lowest since Q1 2000. The development implies that borrowers estimate that the refinancing risk of their loan portfolios has dropped.

Listed sector average fixed interest term⁴



Average fixed interest term decreased 0.1 years to 3.1 years in Q1 2014 from a quarter earlier, a reversal of the distinct upward trend observed over the past years. This implies that borrowers expect interest rates to remain low 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.
- 4 Average maturity of outstanding debt portfolio including effects of derivatives, and excluding loan commitments if reported as such.

----- Average 2000–2014



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. The next edition of CREDI will be published in September 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.

Contact details

Catella Corporate Finance

P.O. Box 5130, Birger Jarlsgatan 6
SE-102 43 Stockholm, Sweden
Phone +46 8 463 33 10
www.catella.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



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