



CREDI February 2015:

Debt expansion ahead

Between the October survey and this February survey, the CREDI Main index increased by 3.7 index points, to 60.3. The correction reverses the trend of a falling CREDI Main index experienced last year. The increase is underpinned by the ease of access to financing enjoyed by borrowers over the last three months and the polled lenders and borrowers belief that access to financing will remain at the same level in the coming three months.

Sweden recorded an all-time high property transaction volume of SEK 142 billion by year-end 2014, ahead of the previously noted all-time high volumes of about SEK 135 billion in 2006. Key drivers behind the booming transaction market are investors' increased risk appetite and greater attention being paid to the property segment, fuelled by a positive financing climate and falling interest rates.

According to the banks and listed property owners participating in the CREDI survey, access to financing continued to improve over the last three months. The margins charged by lending banks have continued to contract and credit terms have continued to increase. The forward-looking index (Expectations) rose to 53.0 (50.0). The results in this February 2015 CREDI survey mark a reversal of the downward trend of a decelerating improvement in the financing climate observable over the last twelve months.

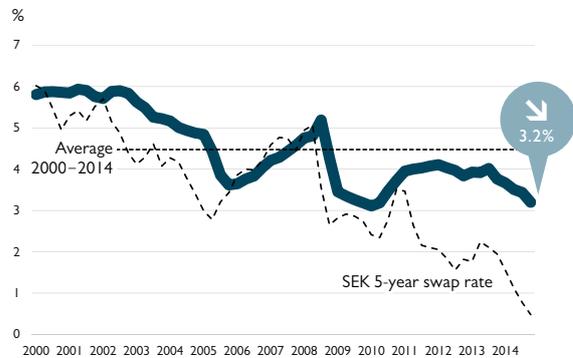
In Q4 2014, average loan to value for the listed real estate companies decreased to 55.6 per cent, indicating a return to the deleveraging trend observed in the property market between 2009 and 2013. The listed average fixed interest term increased to 3.14 years in Q4 2014. In addition, by Q4 2014 the outstanding volume of bonds issued by listed companies was essentially unchanged at 14 per cent of total outstanding company debt.

2014 was characterized not only by a strong property transaction market, but also by strong operational results for the listed property sector. In their year-end reports, a large proportion of the property companies reported significant increases in income from property management and rental income. The positive outlook of this Q1 2015 CREDI supports a liquid property market and strong operational cash flows from property companies also in the coming months.

CREDI Main index

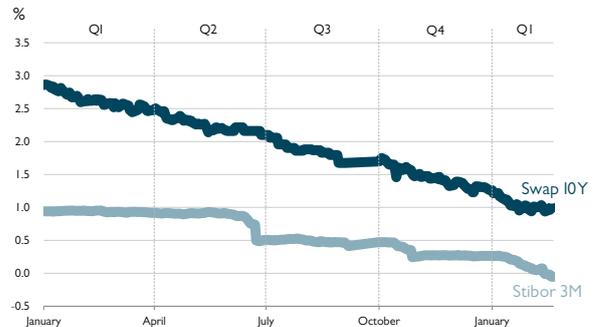


CREDI Indices – Q4 Average interest rate*



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

Swedish key interest rates, 2014 and 2015



About CREDI: 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; a quarterly current and forward-looking survey of Swedish listed property companies and banks providing real estate financing on the Nordic market; and 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. Subscribe to CREDI at catella.se/CREDI

The CREDI Survey

The Main index rose to 60.3 (up 3.7 index points) between the October survey and this February survey. The correction reverses the trend of a declining CREDI Main index witnessed last year. The increase is underpinned by the ease of access to financing enjoyed by borrowers over the last three months and the polled lenders and borrowers belief that access to financing will remain at the same level in the coming three months.

Main index components

Behind the 3.7 index point increase was an improvement of 4.4 index points in the Current situation index, to 67.5 (63.1), and 3.0 index points in the forward-looking index (Expectations), to 53.0 (50.0).

As in the last survey, the banks continue to indicate that they expect access to debt financing to weaken, while property owners strongly indicated the opposite. This February survey results were compiled before Riksbanken announced a cut in the repo rate to -0.10 per cent. The previous October survey results were compiled

when the markets were affected by political uncertainty, lowered growth prospects and falling stock markets. Altogether, the results of this February 2015 CREDI survey mark a reversal of the downward trend of a decelerating improvement in the financing climate observed over the last twelve months.

Sub-indices

The CREDI sub-indices are once again all in, or very close to, the zone of credit expansion (above 50). The largest increases were noted in the Current situation sub-indices for credit margin and credit term, which

strengthened by 8.4 and 13.9 index points respectively, to 75.9 and 71.4 index points. The only decline was noted in the Current situation index in the credit availability sub-index, which decreased by 6.4 index points, to 66.1. However, the level remains firmly in the zone of credit expansion.

In the loan to value and credit term forward looking sub-indices (Expectations), polled lenders and borrowers are generally in agreement, suggesting little change in loan to value and that an increasing credit term will be observed in the coming months.

CREDI Main index



Current situation



Expectations



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.

CREDIT AVAILABILITY



LEVERAGE



CREDIT MARGINS



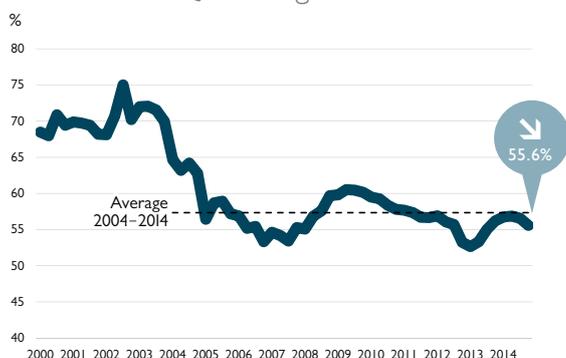
DURATION



The CREDI Indices

The CREDI Indices show that loan to value for the listed property sector declined to 55.6 per cent in Q4 2014, thus reversing the trend of increasing leverage observed during 2013 until mid-2014. The average interest rate has declined to historically low levels and the average credit term and fixed interest term have both increased significantly.

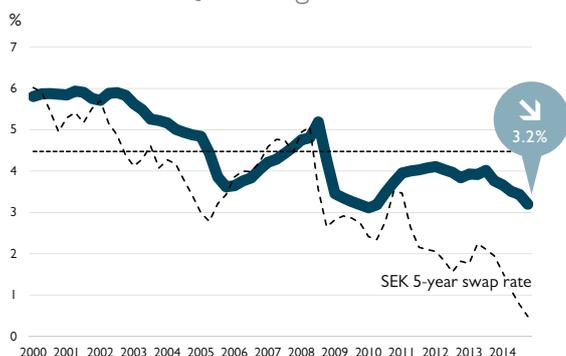
Listed sector Q4 average loan to value¹



In Q4 2014, average loan to value was down 1 percentage point from the previous quarter, to 55.6 per cent. This represents a reversal in the trend of increased leverage observed since Q2 2013. Thus, average loan to value is diverging slightly from the historical average during 2004–2014 (57.3 per cent). The decline is partially attributable to reported appreciation in property values.

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

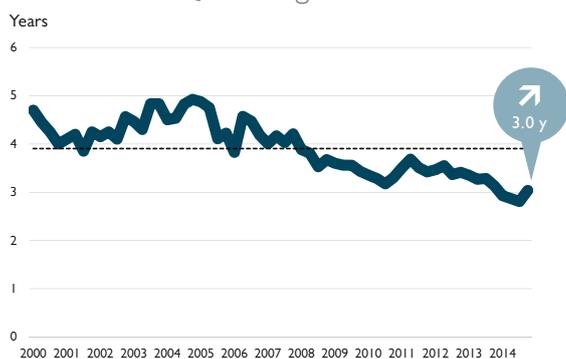
Listed sector Q4 average interest rate²



The listed average interest rate was 3.2 per cent in Q4 2014, down by 9 per cent from the previous quarter and down 15 per cent from Q4 2013. The decreasing average interest rate is again reaching the historically low level observed in 2010, which is directly due to declining underlying interest rates.

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

Listed sector Q4 average fixed credit term³



The average fixed credit term in Q4 2014 was 3.0 years. This represented an increase of 0.2 years from Q3 2014, which was the lowest level observed since Q1 2000. The trend indicates that borrowers estimate that the cost of borrowing is starting to bottom out.

³ Average maturity referring to interest bearing debt.

Listed sector Q4 average fixed interest term³



By year-end 2014, the average fixed interest term was 3.14 years, up 5.3 per cent from Q3 2014. This may partly be due to borrower expectations that interest rates will stay at current levels or increase in the coming year. Consequently, a number of listed property companies have used the current low interest rates as an opportunity to increase the fixed interest term in their debt portfolios.

³ Average maturity referring to interest bearing debt.

----- Average 2000–2014

CREDI – Catella’s view through the looking glass

Robust GDP growth and the ongoing equity bull market indicate continuously strong debt market sentiments.

The total return development on the Swedish stock market is strongly correlated with the Current situation CREDI sub-index for property owners, with a six-month time lag. In other words, the stock market works as a leading indicator of property owners’ assessment of their debt situation. Low interest rates, extremely expansive monetary policy and recovering GDP growth have generated a strong total return development for MSCI Sweden since mid-2012, a trend that escalated further during the first quarter of 2015. As a result, recent quarters’ solid bull market on the stock market indicates continuously strong debt market sentiments among property owners during the rest of 2015.

There is also a strong connection between the overall GDP growth and the Current situation CREDI index for property owners. Catella is forecasting a gradual pick-up in economic growth during the coming year, driven by strong household consumption, increasing investments and a slow rebound in exports. Based on a macroeconomic scenario with a Swedish GDP growth of about 2.5–3.0 per cent in 2015, the CREDI index is expected to increase further during the rest of the year.

Property yield compression continues due to a pick-up in GDP growth, low interest rates and good access to credit.

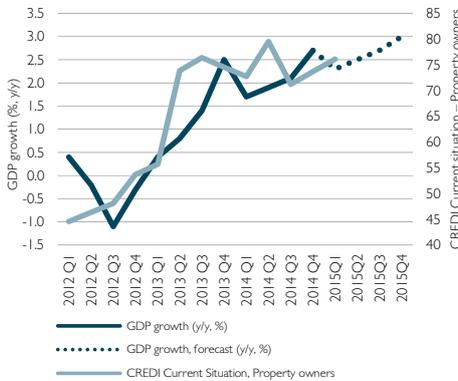
There has been a strong development on the Swedish property market during last years, with a broad transaction activity and a wide range of investors doing business.

The CREDI index is a good indicator of the development of both average yields and yield spreads on the property market. Average office yields have fallen significantly since late 2012, in line with the broadening market activity, and the yield spread between prime and secondary segments has followed a declining trend too. These trends coincides well with the development of the CREDI index during the same period. Based on Catella’s view of the market, with a pick-up in GDP growth and continuously strong CREDI index levels, both average yield and yield spreads will keep on falling during the rest of 2015.

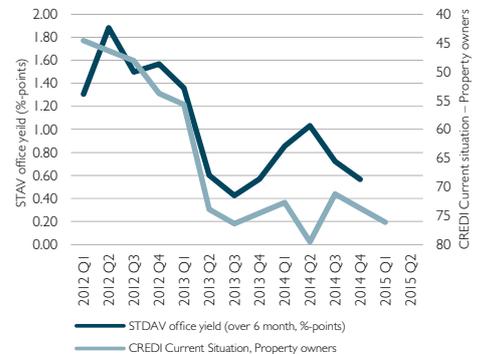
Total return MSCI Sweden and CREDI Current situation for property owners



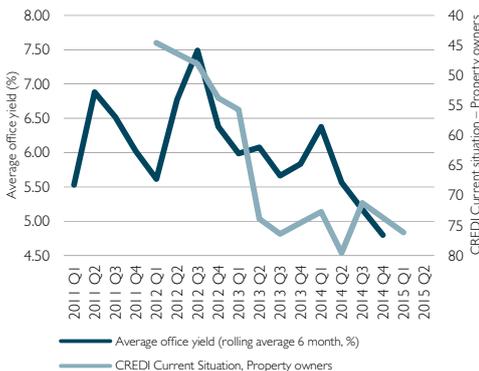
GDP growth and CREDI Current situation for property owners



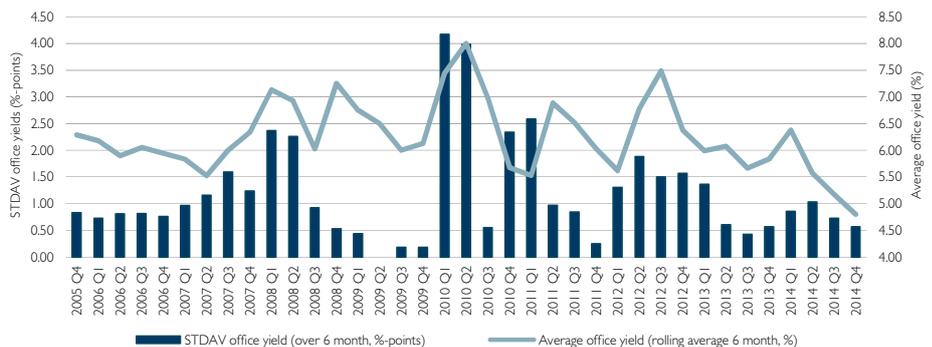
Standard deviation in office yields and CREDI Current situation for property owners



Office average yield and CREDI Current situation for property owners



Office average yield and standard deviation in office yields



Source: Catella, Konjunkturinstitutet and Factset

About the CREDI Survey

CREDI 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.

About the CREDI Indices

CREDI 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.

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

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Contacts

Martin Malhotra

Director

Direct: +46 8 463 34 05

SMS: +46 70 311 34 05

martin.malhotra@catella.se

Arvid Lindqvist

Head of Research

Direct: +46 8 463 33 04

SMS: +46 72 537 17 45

arvid.lindqvist@catella.se

Hanna Keberku

Analyst

Direct: +46 8 463 33 41

SMS: +46 72 250 65 73

hanna.keberku@catella.se

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Catella
HQ: Birger Jarlsgatan 6, Stockholm
info@catella.se

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